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APPENDIXES

APPENDIX A

Tabulation of Sole Proprietor and Partnership Income by Size of Income and Type of Industry: Explanation of Difference

THE statistics for unincorporated business and professional income used in this study are in large part based on two Treasury Department tabulations. 1. The annual tabulations, by size of adjusted gross income, and by size of net profit and loss from sole proprietorship and partnership, as reported on individual returns in *Statistics of Income*. 2. The special tabulations by industry classifications of net profit and loss, presented for recent years in *Statistics of Income, U.S. Business Tax Returns*.

Conceptually, the totals for net profit and net loss obtained from the two types of tabulations should be identical. However, for a number of practical reasons the actual figures have differed, though in most years by only small amounts and only once by more than 5 per cent (Table A-1).

The annual tabulations by size of adjusted gross income are based on the information found on the individual tax return (1040) where the taxpayer summarizes the total amounts of income received from various sources, such as employment, sole proprietorship, partnership, dividends, etc. In the income-size tabulations, the source of the statistics is thus the same for both sole proprietor and partnership profit or loss, i.e., the individual return, 1040.

For the tabulations by type of industry, business tax returns rather than individual tax returns furnished the source. For sole proprietors' profit or loss this merely means that the separate business or farm schedule (schedule C or F, respectively) of the individual return was used as the source. Since the net profit (or loss) arrived at in the business schedule is subsequently transferred to the face of the return to form part of adjusted gross income, summations of net profit and loss based on the two sources should agree, barring copying errors. However, discrepancies do arise, as is evident in Table A-1. Differences in sampling and tabulating procedures employed for the two types of tabulations appear to explain most of the discrepancies.

The reasons for the discrepancies in partnership profits and losses go further than mere differences in sampling and tabulating procedures. The source for the industrial tabulations is the information return (1065) filed by the partnership, whereas the individual return serves as the source for the income-size tabulations. Thus, in the one instance the business itself is the reporting unit, and its profit or loss is tabulated,

TABLE A-1
UNINCORPORATED ENTERPRISE INCOME REPORTED ON TAX RETURNS, BY
INCOME-SIZE AND INDUSTRIAL TABULATIONS, 1939-60
(dollars in millions)

	Sole Proprietors			Partnerships			Total		Ratio of Industrial Tabulations to Income-Size Tabulations			
	Industrial Tabulation (1)	Income-Size Tabulation (2)		Industrial Tabulation (3)	Income-Size Tabulation (4)		Industrial Tabulation (5)	Income-Size Tabulation (6)	Col. 1 ÷ Col. 2 (7)	Col. 3 ÷ Col. 4 (8)	Col. 5 ÷ Col. 6 (9)	
1939	2,478	2,480		1,564	1,194		4,042	3,674	1.00	1.31	1.10	
1941	6,226	6,226			2,230			8,455	1.00			
1943	10,668	10,713			5,092			15,805	1.00			
1945	12,069	11,943		6,768	7,060		18,837	19,003	1.01	0.96	0.99	
1947	15,105	15,342		7,679	7,953		22,783	23,295	0.98	0.97	0.99	
1949	14,459	14,231			7,474			21,705	1.02			
1951	16,552	16,466			8,412			24,878	1.01			
1953	17,007	16,664		8,394	8,287		25,402	24,951	1.02	1.01	1.02	
1955	17,588	18,430			9,024			27,454	0.95			
1956	a	21,285		a	8,852			30,137				
1957	20,220	20,339		9,761 ^b	9,359		29,981	29,698	0.99	1.04	1.01	
1958	20,778	20,674		9,558 ^b	9,232		30,337	29,906	1.01	1.04	1.01	
1959	21,517	21,431		9,869	9,563		31,386	30,995	1.00	1.03	1.01	
1960	21,067	21,072		9,386	8,966		30,453	30,038	1.00	1.05	1.01	

Source: Statistics of Income.

^aFor 1956, industrial tabulations are only available for sole proprietors and partnerships excluding agriculture.

^bPartly estimated. For method, see notes to Table B-1 for lines 10 to 18.

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whereas in the other, the individual partner is the reporting unit and his *share* in the partnership net profit or loss is tabulated. Again, purely conceptually, the individual shares should add up to the total reported by the partnerships on information returns. But here, aside from the expected sampling variations, there are two additional reasons for discrepancies. 1. Although a partnership is required to file an information return, an individual partner's distributive share may not be reported if his income from all sources is below the filing requirement value. This explains why, for 1939, when personal exemptions were still at prewar levels, total partnership net income tabulated from partnership information returns exceeded the total tabulated from individual returns by 31 per cent.

2. Probably even more significant for recent years is the possible difference in accounting periods of individuals and partnerships. For individual partners who report on a calendar-year basis (as most do), the partnership fiscal year must end between July 1 and December 31 in order that our statistics agree. This is because individuals are required to include their share of partnership ordinary income (loss) in the taxable year in which the partnership fiscal year ends; thus, an individual should have included in his 1961 adjusted gross income his share in the ordinary income of a partnership whose fiscal year ended in 1961. But if the partnership fiscal year had ended on May 31, 1961, the net income of the partnership would be included in our 1960 partnership industrial distribution. The 1960 partnership income figures are for accounting periods ending July 1960-June 1961.¹ The figures on individual returns for income from partnership for 1960 include any share in income from partnership whose fiscal year ends in 1960.² This causes the individual-return partnership figures to lag slightly behind those from the industrial tabulation.

¹ The decision to designate these tabulations as 1960 figures rests on data showing that most partnerships have accounting periods ending in the second half of the calendar year. Of 949,396 partnership returns filed between July 1959 and June 1960, as many as 786,188 had accounting periods ending before the end of 1959 (see U.S. Treasury Department, *U.S. Business Tax Returns, 1959-60*, p. 88).

² Assuming individuals are on a calendar year basis.

APPENDIX B

Derivation of the Estimates for Farm and Nonfarm Unincorporated Enterprise Income

Tax return data for an industrial breakdown of unincorporated enterprise, as presented in summary form in Table 8, are available at two-year intervals back to 1939. In some years the data are available only for sole proprietors, while for other years, notably 1939, 1945, 1947, 1953, and 1957-60, they are available for both sole proprietors and partnerships. The totals in line 1 of Table 8 differ slightly from the comparable totals in Table 6, because the latter are from the annual income-size tabulations for individuals, whereas the figures in Table 8 are from the less frequent tabulations of returns of sole proprietors and partnerships by type of industry. (For a detailed explanation of the difference between the two tabulations, see Appendix A.)

The figures from the industrial tabulations are shown in detail in Table B-1. Wherever possible the totals are broken down by returns with net profit and net loss, and within each of these classifications, by farm and nonfarm enterprises for sole proprietors and partnerships. For sole proprietors the data shown are, with the exception of 1956, as tabulated in *Statistics of Income*. For partnerships a considerable number of adjustments and interpolations were made. The figures for 1939, 1945, 1947, and 1953 are identical with those in the Treasury Department's special partnership tabulations. For 1941, 1943, 1949, and 1955, however, the partnership figures are those from the income-size tabulations for individuals, and the break between farm and nonfarm is as estimated by us. For 1956-60, the figures are again based on tabulated partnership statistics; but to preserve comparability with earlier years, the item "payments to partners," which became a deduction from ordinary partnership net income after 1954, had to be added back. For the four years 1955-58 "payments to partners" were not available by returns with net income and net loss, but for 1959 and 1960 such separate breakdowns were published. Detailed explanations are given in the notes to Table B-1.

Table B-2 shows the derivation of estimated total farm unincorporated business income from statistics published by the Agricultural Marketing Service (AMS) of the Agriculture Department. They are comparable to the reported amounts shown on line 20, Table B-1. Two variants of farm income estimates were developed: the first follows the letter of the tax law and does not treat taxes, interest, and depreciation on farm dwellings as a deductible expense; the second proceeds on the extreme assumption that all farmers deduct these items in computing taxable income.

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TABLE B-1

NET INCOME AND NET LOSS FROM SOLE PROPRIETORSHIP AND PARTNERSHIP,
BY FARM AND NONFARM ENTERPRISES, AS REPORTED ON BUSINESS TAX
RETURNS, SELECTED YEARS 1930-60^a
(million dollars)

	1939	1941	1943	1945	1947	1949	1951
<u>Sole Proprietors</u>							
1. Net profit	2,711	6,453	11,041	12,817	16,250	15,979	18,377
2. Farm	194	1,737	3,703	3,745	5,655	4,917	5,213
3. Nonfarm	2,516	4,715	7,338	9,072	10,595	11,062	13,165
4. Net loss	233	227	373	747	1,145	1,520	1,825
5. Farm	86	93	208	404	486	645	n.a.
6. Nonfarm	147	134	164	343	658	874	n.a.
7. Net profit minus net loss	2,478	6,226	10,668	12,069	15,105	14,459	16,552
8. Farm	108	1,645	3,495	3,341	5,168	4,272	n.a.
9. Nonfarm	2,370	4,581	7,174	8,729	9,936	10,187	n.a.
<u>Partnership</u>							
10. Ordinary net income	1,649			6,935	8,008		
11. Farm	62			473	738		
12. Nonfarm	1,587			6,462	7,270		
13. Ordinary net loss	85			167	330		
14. Farm	9			29	47		
15. Nonfarm	76			139	283		
16. Net income minus net loss	1,564	2,230 ^c	5,092 ^c	6,768	7,679	7,474 ^c	
17. Farm	53	214 ^c	454 ^c	444	691	555 ^c	
18. Nonfarm	1,511	2,016 ^c	4,638 ^c	6,323	6,987	6,919 ^c	
<u>Unincorporated Enterprise</u>							
19. Net income minus net loss (sum of lines 7 and 16)	4,042	8,456	15,761	18,837	22,784	21,933	n.a.
20. Farm (sum of lines 8 and 17)	161	1,859	3,949	3,785	5,859	4,827	n.a.
21. Nonfarm (sum of lines 9 and 18)	3,881	6,597	11,812	15,052	16,923	17,106	n.a.

Source for Lines 1-9

1939-55: All figures are as tabulated in the corresponding annual Statistics of Income for individuals.

1956: U.S. Treasury Department, Business Indicators, 1956-57. For that year no figures for agriculture, forestry, and fisheries were tabulated. In the table above only the farm component of agriculture, forestry, and fisheries, is included in farm income. All other components of agriculture, forestry, and fisheries are in the nonfarm group. The published nonfarm figures were, therefore raised slightly by using the 1957 ratio of hunting, trapping, forestry, and fishery to total nonagricultural income. For instance, the published figure for net profit less net loss was raised from \$16,222 million to \$16,425 million, or by 1.25 per cent.

1957-60: Statistics of Income, U.S. Business Tax Returns, 1957-58 and 1958-59.

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TABLE B-1 (concluded)

	1953	1955	1956	1957	1958	1959	1960
<u>Sole Proprietors</u>							
1. Net profit	19,217	19,999		22,807	23,339	24,709	24,269
2. Farm	4,587	4,007		4,460	4,937	4,253	4,265
3. Nonfarm	14,630	15,992	17,530	18,347	18,402	20,455	20,004
4. Net loss	2,210	2,410		2,587	2,562	3,192	3,202
5. Farm	1,214	1,365		1,228	1,175	1,607	1,529
6. Nonfarm	996	1,046	1,078	1,359	1,387	1,585	1,673
7. Net profit minus net loss	17,007	17,588		20,220	20,778	21,517	21,067
8. Farm	3,374	2,642		3,233	3,763	2,647	2,737
9. Nonfarm	13,634	14,946	16,425	16,988	17,015	18,870	18,331
<u>Partnership</u>							
10. Ordinary net income ^b	9,329					10,483	10,113
11. Farm	571					681	664
12. Nonfarm	8,759					9,802	9,449
13. Ordinary net loss ^b	935					614	727
14. Farm	135					133	152
15. Nonfarm	800					481	576
16. Net income minus net loss	8,394	9,024 ^c		9,761	9,558	9,869	9,386
17. Farm	436	343-528 ^c		628	600	548	512
18. Nonfarm	7,958	8,681- 8,496 ^c	9,384	9,132	8,959	9,321	8,874
<u>Unincorporated Enterprise</u>							
19. Net income minus net loss (sum of lines 7 and 16)	25,401	26,612		29,981	30,337	31,386	30,453
20. Farm (sum of lines 8 and 17)	3,810	2,985- 3,170		3,861	4,363	3,195	3,249
21. Nonfarm (sum of lines 9 and 18)	21,592	23,627- 23,442	25,809	26,120	25,974	28,191	27,204

Source for Lines 10-18

1939, 1945, 1947, and 1953: As tabulated in special Statistics of Income supplements for partnership information returns for 1939 and 1953, and in Treasury Department press releases S-2253 and S-2645, respectively, for 1945 and 1947.

1941, 1943, 1949, and 1955: Partnership net income less net loss for these years was obtained from the income-size tabulations for individual returns (col. 4, Table A-1). This figure was then divided into farm and nonfarm components by assuming for 1941, 1943, and 1949 a ratio of farm partnership to farm sole proprietors' income of 0.13, approximately the same as in 1945, 1947, and 1953. The ratio was obtained as follows:

	Farm Income		
	Sole Proprietors (dollars in millions)	Partnerships	Col. 2 ÷ Col. 1
	(1)	(2)	(3)
1945	3,341	444	.13
1947	5,168	691	.13
1953	3,374	436	.13
1957	3,233	628	.19
1958	3,763	600	.16
1959	2,647	548	.21
1960	2,737	512	.19

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NOTES TO TABLE B-1 (continued)

A sharp rise in farm partnership income is evident from 1953 to 1957-60. For 1955 the farm partnership figure was therefore estimated for a range from .13 to .20 of sole proprietors' farm income, i.e., \$343 million to \$528 million. The amount of nonfarm partnership income shown for these years was then residually determined.

1956: The same adjustment as for sole proprietors (see note for lines 1-9, 1956 above) was made for partnerships to include hunting, trapping, forestry, and fishery in nonfarm partnership net income less net loss. The reported figure was raised from \$8,294 million to \$8,375 million, or less than 1 per cent. A further adjustment was required to allow for the omission of "payments to partners" from the partnership tabulations after 1954. This was done by raising \$8,375 million by 12 per cent (= \$9,384 million), the per cent which payments to partners was to net income less net loss for nonagricultural partnerships for 1957 (see note below). Published sources are the same as for sole proprietors shown above.

1957 and 1958: Ordinary net income and ordinary net loss figures are shown for both years in U.S. Business Tax Returns, 1958-59, Table 17, but these figures are net of payments to partners. The published figures for payments to partners appear in Statistics of Income, Selected Financial Data, 1957-58 and 1958-59, Table 2. Only a figure for payments to partners of nonagricultural partnerships is shown for 1957. The figure for payments to partners of agriculture, forestry, and fisheries partnerships was obtained from unpublished worksheets of the IRS.

The totals for 1957 were obtained by these additions (millions of dollars):

	Agriculture, Forestry, & Fisheries (1)	All Other (2)	Total (3)
1. Ordinary income	819	8,694	9,513
2. Ordinary loss	133	622	755
3. Ordinary income less loss	687	8,072	8,759
4. Payments to partners	30	972	1,002
5. Adjusted ordinary income less loss	717	9,044	9,761

Since payments to partners are not given separately by returns with ordinary income and ordinary loss, no separate adjustments were possible. The figures shown above are divided by agriculture, forestry, and fisheries, and all others, whereas the break throughout this study is between farm and nonfarm. To conform with the rest, the estimated amount for forestry, fisheries, and some miscellaneous items had to be transferred into the "all other" category to yield a nonfarm figure. The amount shown on line 5, column 1, of this note, for agriculture, forestry, and fisheries was reduced by multiplying it by the ratio of farm net profit less net loss to agriculture, forestry, and fisheries net profit less net loss. For net profit and net loss—a somewhat less inclusive concept than the ordinary income and loss concept used here—more detailed industry breakdowns are available for 1957 and 1958 (U.S. Business Tax Returns, 1957-58, p. 11).

1957 Net profit less
net loss
(million dollars)

1. Agriculture, forestry, and fisheries	594
2. Farms	521
3. Line 2 ÷ line 1	.876
4. Farm ordinary income-less- loss estimate	.717 X .876 = .628

The last figure is that shown on line 17, Table B-1. The difference between it and \$717 million (i.e., \$89 million) was added to the "all other" figure of \$9,044 million (line 5, this note) to yield \$9,132 for nonfarm partnership ordinary net income less loss (shown on line 18, Table B-1).

The figures for 1958 were calculated in a similar way. But data on ordinary income, ordinary loss, and payments to partners were all available by farm and non-farm in Selected Financial Data, 1958-59.

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Table B-3 shows the derivation of estimated nonfarm unincorporated business and professional income from data published by the National Income Division (NID) of the Commerce Department. Slightly different adjustments in these data were required, depending on whether they were compared with the tabulations based on business tax returns or on individual returns. For instance, income from partnership received by fiduciaries is included in the business return statistics but not in those based on individual returns.

The NID estimates for professional practitioners and the AMS estimates for farm operators are independent of tax return information; however, in its estimates of unincorporated business income, the NID relies heavily on tax return information.¹ Thus, some circularity arises when tax return coverage and NID estimates of unincorporated enterprise are compared. The circularity is to some extent alleviated by the NID's upward adjustment of the tax return figures to correct for (1) understatement of reported net income by use of Internal Revenue Service audit data for the year 1949 and (2) undercoverage of entrepreneurs by use of Census information on sales or number of proprietors.²

¹ In the past, the income estimates for unincorporated business have for this reason, as well as others, been considered among the weakest links of United States national income estimates. For instance, the National Accounts Review Committee, in its review of NID estimates, considered improvement of the data for nonfarm sole proprietors and partnerships "the most important single step that could be taken to improve the accuracy of the national accounts." U.S. Congress, Joint Economic Committee: *The National Economic Accounts of the United States*, Hearings before the Subcommittee on Economic Statistics, 85th Congress, 1st Session, Washington, 1957, p. 225. In the most recent discussion of its estimates, the NID itself has taken a more sanguine view, stating that "the entrepreneurial income now, for the first time, is founded for an appreciable span of years on a comprehensive and uniform body of statistical data." *U.S. Income and Output*, Washington, Nov. 1958, pp. 89-90. In contrast, the NID's 1951 discussion stated that "no comprehensive body of data covering any appreciable time interval exists for the income of unincorporated enterprise." *National Income*, 1951 Edition, Washington, 1951, p. 70.

² See *U.S. Income and Output*, pp. 90-91.

NOTES TO TABLE B-1 (concluded)

1959 and 1960: Ordinary income and loss from Selected Financial Data, 1959-60 and 1960-61. Payments to partners from U.S. Business Tax Returns, 1959-60 and 1960-61.

^a Schedule C or F of Form 1040 for sole proprietors; partnership information returns for partnerships. Figures are for accounting periods ending between July 1 of year indicated and June 30 of following year.

^b Ordinary income (loss) as tabulated by the IRS in Statistics of Income differs slightly from net profit (loss). The latter is defined as the difference between total business receipts and the ordinary and necessary business deductions. Ordinary income (loss) includes, in addition, investment income, income (loss) from other partnerships, gain (loss) from the sale of property other than capital assets, and other income received by the partnership.

^c Total for partnership is from individual returns 1040. Farm and nonfarm breakdown estimated.

To the extent that they rely on audit data, these corrections, though in the right direction, are not entirely satisfactory for our purpose because the IRS audit control program of 1948-49 could not, and was indeed not designed to, uncover all errors in reporting. In addition, because its estimate for nonfarm unincorporated business is derived from tax return data, the NID made two adjustments based on the assumption that (1) earnings of insurance solicitors are reported as business income on tax returns, and (2) that a significant portion of the income of own-account workers in contract construction (such as carpenters and painters) operating from their own homes is not reported in the business schedule³ of the return. Insurance solicitors' estimated earnings were subtracted, while the item covering "own-account workers in contract construction" was added in obtaining the Commerce estimates. For our purposes it would be appropriate to reverse the adjustment for insurance solicitors, thereby raising the amount shown for total business and professional proprietors' net income (line 1, Table B-3). But since the item is small,⁴ and its size for past years is unknown to us, no correction was attempted. The result is a slight overstatement of the coverage ratios shown in Table 8.

The AMS estimates of farm cash receipts and production expenses, which were used for the farm sector, are generally considered of a high caliber. Since farm cash receipts and expenses include those of corporations as well as sole proprietors and partners, it was necessary to subtract the net income of farm corporations to obtain net income of unincorporated farm enterprises. A further subtraction was necessary for those receipts from farm marketings which are included in the AMS totals but

³ *U.S. Income and Output*, pp. 91-92. Selma F. Goldsmith, whose procedures we have followed in most respects, has in the past adjusted the NID business and professional income estimates for comparability with tax return figures by transferring this portion of the income of own-account workers from the entrepreneurial to the wage and salary component, on the assumption that when reported on income tax returns they would appear under wages and salaries. See "Appraisal of Basic Data Available for Constructing Income Size Distributions," part VI of *Studies in Income and Wealth*, 13, New York, NBER, 1951, p. 356. We have not followed this procedure in the present study in the belief that, except for 1941-43, the incentive to report receipts in the business schedule of the tax return may have outweighed other considerations. For recent years, the adjustment may well on balance have to be in the opposite direction. If receipts are reported as business income rather than wages or salaries, it is possible, in many cases, to take a larger total of deductions, since by using schedule C, both business expenses and the standard deduction may be taken.

⁴ The NID does not publish detailed statistics of its adjustments. However, it is noted that the addition for depletion allowances, and the subtractions for dividends and interest received by partnerships and earnings of insurance solicitors, entailed on balance a lowering of the tax return total by \$300-\$400 million a year. (*U.S. Income and Output*). Since the amounts for depletion deductions and dividends and interest received by partnerships have been estimated by us (Table B-2), a rough estimate of \$300 million for earnings of insurance solicitors could thus be arrived at residually.

TABLE B-2
ESTIMATES OF FARM OPERATORS' NET MONEY INCOME (AGRICULTURE DEPARTMENT), ADJUSTED
FOR COMPARABILITY WITH TAX RETURN CONCEPTS, SELECTED YEARS, 1939-60
(million dollars)

	1939	1941	1943	1945	1947	1949	1953
1. Farm cash receipts	8,635	11,655	20,265	22,405	29,934	28,014	31,339
2. Minus: Production expenses of farm operators	6,060	7,603	11,405	12,839	17,011	18,008	21,339
3. Plus: Taxes, interest, and depreciation on farm dwellings	537	572	643	710	1,113	1,031	1,185
4. Plus: Patronage refunds and stock dividends paid by farmers' cooperatives	30	60	149	122	189	226	321
5. Minus: Estimated net income reported as capital gains	27	-61	137	517	444	360	408
6. Minus: Corporate farm net profit	31	87	129	160	226	200	140
Equals: Farm operators' net money income							
7. Variant I	3,084	4,658	9,386	9,721	13,555	10,703	11,055
8. Variant II (omits line 3)	2,547	4,086	8,743	9,011	12,442	9,672	9,773
Plus: Farm operators' net money income of Hawaii and Alaska							
9. Variant I	12	16	35	37	52	39	41
10. Variant II	10	14	32	34	47	36	36
11. Minus: Depletion deductions	1	1	3	3	5	6	8
12. Minus: Net operating loss deductions				25	22	43	
Equals: Farm net income (income tax concept)							
13. Variant I	3,095	4,673	9,418	9,730	13,580	10,693	11,088
14. Variant II	2,556	4,099	8,772	9,017	12,462	9,659	9,801

(continued)

TABLE B-2 (concluded)

	1955	1956	1957	1958	1959	1960
1. Farm cash receipts						
2. Minus: Production expenses of farm operators	29,785	31,117	30,840	34,494	34,194	34,705
3. Plus: Taxes, interest, and depreciation on farm dwellings	21,833	22,526	23,246	25,171	26,137	26,177
4. Plus: Patronage refunds and stock dividends paid by farmers' cooperatives	1,271	1,325	1,363	1,389	1,451	1,461
5. Minus: Estimated net income reported as capital gains	311	351	362	380	362	368
6. Minus: Corporate farm net profit	624	717	648	713	701	595
Equals: Farm operators' net money income	232	151	152	193	149	102
7. Variant I	8,698	9,399	8,519	10,186	9,020	9,660
8. Variant II (omits line 3)	7,427	8,074	7,156	8,797	7,569	8,199
Plus: Farm operators' net money income of Hawaii and Alaska						
9. Variant I	34	34	31	34	34	46
10. Variant II	29	29	26	29	28	39
11. Minus: Depletion deductions	7	7	7	5	24	3
12. Minus: Net operating loss deductions						
Equals: Farm net income (income tax concept)						
13. Variant I	8,725	9,426	8,543	10,215	9,030	9,703
14. Variant II	7,449	8,096	7,175	8,821	7,573	8,235

Line1. Department of Agriculture, Farm Income Situation, July 1963, p. 44.2. Ibid., p. 34.3. Gross rental value of farm dwellings (ibid., p. 45) minus net rent on owner occupied farm dwellings (unpublished Commerce Department estimate).

4. Department of Commerce, unpublished estimate.

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NOTES TO TABLE B-2 (continued)

Line

5. Estimated by multiplying total farm cash receipts (line 1) by the estimated ratio of net capital gains to "sales and receipts from operations" of unincorporated farm enterprises. Net capital gains of unincorporated farm enterprises was available for the first time in 1959 (Statistics of Income, 1959, Supplemental Report, Sales of Capital Assets Reported on Individual Income Tax Returns, p. 10). For all other years this ratio was estimated on the assumption that the ratio between the ratio of capital gains to sales for unincorporated farm enterprises and the ratio of capital gains to sales for farm corporations (from Statistics of Income, Corporate Returns) was constant.
6. Treasury Department, Statistics of Income, Corporation Returns. Figure is compiled net profit minus net realized capital gains plus compensation of officers.
- 9 For 1939, 1941, and 1957-60, unincorporated enterprise income of Alaska and Hawaii was tabulated in Statistics of Income.
and To estimate the other years, the ratios of Alaskan and Hawaiian
10. enterprise income to all other enterprise income for the years mentioned above were averaged and multiplied by reported enterprise income for the years in question. The resulting estimates were then divided between farm and nonfarm in the same proportion as unincorporated enterprise income reported on tax returns was divided for each respective year (using figures in lines 20 and 21 of Table B-1). Total amounts were then estimated on the assumption that nonfarm and farm net income in Hawaii and Alaska were underreported to the same extent as the respective types on the mainland.

In Table 6, col. 2, a different series was used in determining estimated total unincorporated enterprise income of Alaska and Hawaii for 1929-60. Estimates of reported amounts were obtained as shown above, and were then raised, to account for underreporting, by use of the percentages of underreporting obtained for the mainland. The method for the 1929-60 series thus differs from that used in this table, in that the farm and nonfarm breakdowns were not made; therefore, estimated total income appearing in Table 6 is slightly different from that which appears in Table B-3.
11. Series for estimated total depletion (farm and nonfarm), were constructed separately for partnership and sole proprietorship. The estimates for partnership are for the most part based on the data published in the Treasury's special partnership tabulations. For 1939 (Supplement to Statistics of Income for 1939), 1945 (Press Release S-2235), 1947 (Press Release S-2645), and 1953 (Statistics of Income, 1953 Partnership Returns), the partnership component is as tabulated. For 1956 (Business Indicators, 1956-1957) and for 1957 (Selected Financial Data, 1957-1958), the tabulated figures omitted agriculture, forestry, and fisheries and were therefore raised by the ratio of total depletion to total excluding agriculture, forestry, and fisheries for the years when the ratio was available. For 1958, 1959, and 1960, partnership depletion is again as tabulated (Selected Financial Data). For all other years partnership depletion was estimated by straight-line interpolation of the ratio of partnership depletion to net income for the benchmark years. These ratios were then multiplied by tabulated partnership net income for the years in question. Partnership farm depletion is as tabulated for 1939, 1945,

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NOTES TO TABLE B-2 (concluded)

Line

11. 1947, and 1953. Depletion for agriculture, forestry, and fisheries was also available for these years as well as for 1958-60. In the latter years this figure was multiplied by the ratio of farm depletion to agriculture, forestry, fisheries depletion for the earlier years. For 1957, gross receipts of agriculture, forestry, and fisheries was multiplied by the ratio of farm depletion to gross receipts of agriculture, forestry, and fisheries for all years for which it was available. For the remaining years, 1941, 1943, 1949, 1955, and 1956, no complete industrial breakdown for partnership was available. Farm depletion for these years was estimated by using the average ratio of farm to total depletion for 1939, 1945, 1947, 1953, and 1957-60.

The depletion estimates for sole proprietors are based on data for only six years and are therefore not very satisfactory. For 1945, a tentative figure for the total was obtained by subtracting from the total for sole proprietorship and partnership (supplied by Joseph Pechman), the depletion of partners. For 1956 and 1957 (sources the same as for partnership), depletion figures excluding agriculture, forestry, and fisheries were published. Sole proprietorship is as tabulated in Selected Financial Data for 1958-60. A depletion figure for sole proprietors in agriculture, forestry and fisheries was estimated for 1956 and 1957 by multiplying 1957 and an estimate of 1956 gross receipts of these proprietors by the average ratio of agriculture, forestry, and fisheries depletion to gross receipts for 1958-60. This estimate was added to the tabulated 1956 and 1957 depletion figures to obtain an estimated total for sole proprietors. For all other years, sole proprietorship depletion was estimated by multiplying net income from sole proprietorship by estimated ratios of depletion to net income for sole proprietors. For 1939-44, the 1945 ratio was used. For 1946-55 an average of 1945 and the later period was used. Depletion for agriculture, forestry, and fisheries was obtained by multiplying agriculture, forestry, and fisheries gross receipts (as tabulated in Statistics of Income) by the average ratio of agriculture, forestry, and fisheries depletion to gross receipts reported by sole proprietorship in agriculture, forestry, and fisheries for 1958-60. The latter figure was available for all years except 1956 for which an average of 1955 and 1957 estimated depletion was used. Farm depletion is as tabulated in 1959 for sole proprietors. For other years, sole proprietor farm depletion was estimated as equal to a percentage of depletion for sole proprietors in agriculture, forestry, and fisheries based on the average ratio obtained for sole proprietors and partners.

12. The net operating loss deduction (NOLD) affects only the net income of sole proprietors, and only for the years 1944-50. Information on NOLD was available for sole proprietors in 1945 and for sole proprietors and partners for 1951-54 and 1960-61. Amounts of sole proprietorship NOLD for 1944 and 1946-50 were estimated by interpolation on the basis of the ratio of NOLD to prior year net losses on returns with no AGI; for 1944 the 1945 ratio was used and for 1946-50 the ratios were interpolated annually between 1945 and the average of the 1951-54 ratios for sole proprietors and partners. 1945 was the only year for which there is a breakdown between farm and non-farm NOLD; the 1945 ratio of farm to total NOLD was used to separate 1947 and 1949 NOLD by farm and nonfarm sources.

TABLE B-3
ESTIMATES OF NONFARM (COMMERCE DEPARTMENT) AND TOTAL
UNINCORPORATED ENTERPRISE INCOME, ADJUSTED FOR
COMPARABILITY WITH TAX RETURN CONCEPTS, 1939-60
(million dollars)

	1939	1941	1943	1945	1947	1949	1953
1. Estimated nonfarm business and professional income	7,459	11,512	16,979	19,117	21,419	22,194	27,613
2. Plus: Dividends and interest received by partnerships	79	87	91	115	138	176	243
3. Plus: Nonfarm business and professional income of Hawaii and Alaska	25	38	62	71	80	81	100
Minus: Income of fiduciaries from either Sole proprietorship or Sole proprietorship and partnership	16	36	75	64	84	55	64
5. Sole proprietorship and partnership							153
6. Minus: Depletion deductions	49	75	102	73	147	163	247
7. Minus: Net operating loss deduction				55	47	92	
Equals: Nonfarm business and professional income-- income tax concept							
8. Income size distribution (omits line 4)	14	11,562	17,030	19,175	21,443	22,196	27,556
9. Industrial distribution (omits line 5)	7,498	11,526	16,955	19,111	21,359	22,141	27,645
Farm net income--income tax concept							
10. Variant I	3,095	4,673	9,418	9,730	13,580	10,693	11,088
11. Variant II	2,556	4,099	8,772	9,017	12,462	9,659	9,801
Total unincorporated enterprise income--income tax concept							
12. Income size distribution (sum of lines 8 and 10)	10,609	16,235	26,448	28,905	35,023	32,889	38,644
Industrial distribution							
13. Variant I (sum of lines 9 and 10)	10,593	16,199	26,373	28,841	34,939	32,834	38,733
14. Variant II (sum of lines 9 and 11)	10,054	15,625	25,727	28,128	33,821	31,800	37,446

(continued)

TABLE B-3 (concluded)

	1955	1956	1957	1958	1959	1960
1. Estimated nonfarm business and professional income	30,580	32,600	32,977	32,560	35,244	34,221
2. Plus: Dividends and interest received by partnerships	223	257	291	309	350	395
3. Plus: Nonfarm business and professional income of Hawaii and Alaska	117	113	116	106	130	
4. Minus: Income of fiduciaries from either Sole proprietorship	87	107	141	181	189	185
5. Sole proprietorship and partnership or						
6. Minus: Depletion deductions	189	205	252	298	310	299
7. Minus: Net operating loss deduction	296	346	249	338	215	362
Equals: Nonfarm business and professional income--income tax concept						
8. Income size distribution (omits line 4)	30,435	32,419	32,883	32,339	35,199	33,955
9. Industrial distribution (omits line 5)	30,537	32,517	32,994	32,456	35,320	34,069
Farm net income--income tax concept						
10. Variant I	8,725	9,426	8,543	10,215	9,030	9,703
11. Variant II	7,449	8,096	7,175	8,821	7,573	8,235
Total unincorporated enterprise income--income tax concept						
12. Income size distribution (sum of lines 8 and 10)	39,160	41,845	41,426	42,554	44,229	43,658
Industrial distribution						
13. Variant I (sum of lines 9 and 10)	39,262	41,943	41,537	42,671	44,350	43,772
14. Variant II (sum of lines 9 and 11)	37,986	40,613	40,169	41,277	42,893	42,304

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NOTES TO TABLE B-3

Line

1. Department of Commerce, Survey of Current Business, July 1959 and July 1962, Table I-8, line 14.
2. Dividends from Daniel M. Holland, Dividends Under the Income Tax, Princeton for NBER, 1962, Table 26, line 12. After 1953, dividends received were excluded from partnership ordinary income or loss. For 1939, 1945, 1947, and 1953, interest figures are as tabulated in Statistics of Income. For all other years, an interest series was constructed by (a) averaging, for the four years for which we have data, the ratio of interest received by partnerships to total interest received by all private businesses, and (b) multiplying the latter by the average ratio obtained in (a). Interest received by all private businesses was obtained from Department of Commerce, Income and Output, 1958, and Survey of Current Business, July 1962, Table VII-16.
3. See notes to Table B-2, lines 9 and 10.
4. It was arbitrarily assumed that for all years underreporting of sole proprietorship income of fiduciaries amounted to 10 per cent of the amount that was reported. Reported or estimated amounts were then raised by that amount. Prior to 1953, reported amounts were as tabulated in Statistics of Income. Since 1952, fiduciary return figures have been published biennially, and gross rather than net profits have been tabulated. To obtain net profits, it was necessary to subtract depreciation and "other deductions," which were available only for sole proprietorship, partnership, and rental income combined. In estimating the share of sole proprietorship, it was assumed that depreciation and the increase in "other deductions" were accounted for by the three income types in proportion to their relative increase from net to gross for each year in question. First, the increases in fiduciary income from sole proprietorship for the periods 1952-54, 1954-56, and 1956-58 were divided by the increase in all three income components combined. This ratio was then applied to depreciation and to the increase over 1952 in "other deductions" to obtain the share attributable to sole proprietors for 1954, 1956, and 1958. For 1953, 1955, and 1957 the ratio of sole proprietorship income on fiduciary returns to sole proprietorship on individual returns was interpolated from the corresponding ratios of the adjacent years; for 1959 and 1960, the 1958 ratio was extrapolated. These ratios were then multiplied by the amounts tabulated from individual returns to obtain estimated fiduciary income from sole proprietorship.
5. Partnership income of fiduciaries was obtained by the same method outlined above for sole proprietors.
6. See notes to Table B-2, line 11.
7. See notes to Table B-2, line 12.
8. Beginning with 1953, sole proprietorship and partnership income of fiduciaries (line 5) had to be subtracted from Commerce Department estimates to make them comparable with tax returns. Before that year, Statistics of Income figures also included fiduciary income. No figures are therefore given on line 5 for years before 1953.
9. Estimates differ from line 8 in that fiduciaries' partnership income is included in the tax return industrial distribution for all years, whereas their sole proprietorship income is not included for any of the years shown. This is because the partnership industry breakdown is tabulated from partnership information returns; the sole proprietor industry breakdown is tabulated from the returns of individuals only.
- 10 and 11. See Table B-2, lines 13 and 14.

are likely to be treated as capital gains (or losses) on tax returns. Such gains and losses appear to stem primarily from sales of livestock held for draft, breeding, or dairy purposes.⁵ Two additions were made to obtain farmers' net income. The AMS total of production expenses includes taxes, interest, and depreciation on farm operators' dwellings. As already noted, these items are not deductible in computing adjusted gross income and our estimate of their value was therefore added back. (In the variant 2 calculation, these items were deducted on the assumption that farmers in practice do not distinguish the amount attributable to business use from that attributable to personal use.) Second, the AMS estimate of farm receipts does not include patronage refunds and dividends from farm cooperatives. These must be reported as taxable farm income and were therefore added in Table B-2 to complete our estimate of farm income to be reported.

The estimates discussed above are not completely consistent in concept with, nor are they comparable in coverage to, the reported figures in Table B-1. Income from Hawaii and Alaska, although included in tax return income, is not included in Commerce Department estimates until 1960. Therefore, an estimate of total unincorporated enterprise income for Hawaii and Alaska was added to the NID and AMS totals. In addition, interest and dividend income of partnerships, taxable as partnership income but treated as property income by the NID, was added to estimated total unincorporated enterprise income; the estimated allowance for depletion of mineral resources was deducted from this income to conform with net profit and loss on tax returns; the same adjustment was required for the so-called net operating loss (loss carry-forward) deduction for years when it was tabulated among business deductions in *Statistics of Income*.

From 1953 on, unincorporated enterprise income reported on fiduciary returns has not been included in our tax return figures. In Table B-3, line 12, the estimated total sole proprietorship and partnership net income of fiduciaries has been deducted from the estimated total; in lines 13 and 14 it was necessary to deduct only the sole proprietorship income of fiduciaries, as the partnership income is presumably included in the amounts reported on partnership information returns. It was assumed that all unincorporated enterprise income of fiduciaries was from nonfarm sources and that it was underreported by 10 per cent of the reported amount.

⁵ This adjustment was first made by Frederick D. Stocker and John C. Ellickson in "How Fully Do Farmers Report Their Income?" *National Tax Journal*, June 1959, p. 120.

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After these adjustments are made, it becomes possible to compare, by farm and nonfarm enterprises, the amounts reported on business returns with the estimated amounts potentially available for reporting on these returns; this information is summarized in Table 8. We can also compare amounts of unincorporated enterprise income reported on individual returns with the estimated totals; this information is in Table 6.

APPENDIX C

Derivation of Estimates of Total Wages and Salaries and AGI

TABLE C-1

ADJUSTMENT OF WAGE AND SALARY DISBURSEMENTS (COMMERCE DEPARTMENT
ESTIMATES) FOR COMPARABILITY WITH AMOUNTS REPORTED ON TAX
RETURNS, SELECTED YEARS, 1939-60
(million dollars)

	1939	1949	1955	1960
1. Wage and salary disbursements	45,941	134,356	210,902	271,308
2. Minus: Component in kind	538	1,666	1,940	1,972
3. Minus: Nontaxable military pay		434	2,435	2,464
4. Minus: Sick-pay exclusion			444	675
5. Plus: Taxable other labor income	124	354	598	893
6. Plus: Total wages and salaries of Hawaii and Alaska	175	625	936	
7. Equals: Total wages and salaries to be reported	45,702	133,235	207,617	267,090

Source

Line

1. Department of Commerce, U.S. Income and Output, 1958; Survey of Current Business, July, 1963, Table I-8.
2. Ibid., Table VII-17, sum of lines 2, 3, 4, and 7.
3. For 1941-53, estimates were supplied by Joseph Pechman. For 1954-60, estimates were derived by multiplying military wages and salaries (Commerce Department) by the average ratio of nontaxable to total military wages and salaries for 1953 (ratio supplied by Selma Goldsmith) and 1962 (data supplied by Defense Department).
4. Statistics of Income.
5. 1929-55 estimates supplied by Joseph Pechman. Taxable other labor income includes pay of military reservists, directors fees, jury and witness fees, marriage fees, and compensation of prison inmates. The last three items were less than 5 per cent of the total for all years they were available; because of their relative insignificance, they were estimated by simple straight-line extrapolation. Pay of military reservists was available in the Budget of the United States for most fiscal years involved. Calendar year figures were obtained by simple interpolation. Directors fees were estimated by multiplying compensation of corporation officers (Statistics of Income, Corporation Returns) by the 1950-55 ratio of directors fees to compensation of corporation officers.
6. Statistics of Income. For Hawaii, wages and salaries have been tabulated annually by the IRS. For Alaska, tabulated figures were available for 1939 and 1955, but not for 1949. For 1949, the published figure for Hawaii was therefore raised by the average percentage which Alaska was of Hawaii in the period 1939-42 and 1955-60. These combined amounts for Hawaii and Alaska were then multiplied by ratio of estimated total wages and salaries to reported wages and salaries for the mainland for each of these years in order to obtain estimated total wages and salaries for Hawaii and Alaska.

APPENDIX C

TABLE C-2

ADJUSTMENT OF PERSONAL INCOME ESTIMATE (COMMERCE DEPARTMENT)
TO OBTAIN ESTIMATE OF TOTAL ADJUSTED GROSS INCOME, 1960
(million dollars)

1. Personal income, Commerce Department estimate	401,275
2. Personal income items not included in AGI estimate	
a. Transfer payments	29,518
b. Other labor income	10,103
c. Income in kind	10,008
d. Nonfarm inventory valuation adjustment (noncorporate)	-19
e. Farm inventory	329
f. Imputed interest	11,131
g. Accrued interest	397
h. Tax-exempt interest	824
i. Undistributed fiduciary income other than capital gains	1,776
j. Property income of nonprofit organizations	884
k. Nontaxable military pay	2,464
l. Imputed rental value of tenant occupied houses	521
m. Total, lines 2-a through 2-l	67,936
3. AGI items added to personal income estimate	
a. Personal contributions for social insurance	9,225
b. Net gains from exchanges of property reported on tax returns	5,217
c. Other income	2,565
d. AGI of residents of Alaska and Hawaii	-
e. Annuities and pensions	1,796
f. Deductions for depletion	-540
g. Net operating loss deduction reported on tax returns	-166
h. Dividend exclusions	-384
i. Sick pay exclusions	-675
j. Total, lines 3-a through 3-i	17,038
4. Total AGI (sum of lines 1 and 3-j minus line 2-m)	350,377

Source: Unless otherwise indicated, source tables given are from Department of Commerce, Survey of Current Business, July 1963.

Line

- 1, 2-a. Table II-1
- 2-b. Table II-1, line 8 minus line 5 of Table C-1 in this appendix.
- 2-c. Table VII-17, sum of lines 1 and 8, minus line 6.
- 2-d. Table I-8.
- 2-e. Table I-1.
- 2-f. Table VII-16, line 4 minus line 6.
- 2-g. Treasury Bulletin, July 1963, pp. 57-58. The total amount of accrued discount on redemptions during the year was subtracted from the amount of "accrued discount" on outstanding debt during the calendar year. Accrued interest on series A-D bonds was obtained by subtracting the figures for series E-K from the figures for "all series combined." The amount of accrued interest received by individuals was obtained by assuming that 80 per cent of series A-D, 66 1/3 per cent of series F, G, J, and K, and all of series E bonds, were owned by individuals.
- 2-h. The total dollar amounts of state and local government securities are available in the 1960 Annual Report of the Secretary of the Treasury for the fiscal years 1952-60, and in the 1958 Annual Report of the Secretary of the Treasury for the fiscal years 1941-52. Calendar year amounts were estimated by simple interpolation. Interest paid by state and local governments is from

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NOTES TO TABLE C-2 (concluded)

<u>Line</u>	
2-h.	Table III-2. Interest paid to individuals is their pro rata share based on the dollar amount held by individuals, as calculated by George Lent, <u>The Ownership of Tax-Exempt Securities, 1913-1953</u> , New York, National Bureau of Economic Research, Occasional Paper 47, pp. 132-133, for the years 1929-52, and as tabulated in the <u>1961 Annual Report of the Secretary of the Treasury</u> for the years 1952-60.
2-i.	<u>Statistics of Income</u> , 1952, 1954, 1956, and 1958. The amounts for 1953, 1955, and 1957 are simple averages of the succeeding and preceding years. As no data are available for 1960, 1959 and 1960 are extrapolated on the assumption that the rate of growth between 1956 and 1958 holds for the later years. No adjustment was necessary for years before 1952, as fiduciary income is included in individual income for this period.
2-j.	Estimated by Joseph Pechman by extrapolating the average amount of interest, dividends, and rental income received by nonprofit institutions in 1944-47. This average was Selma F. Goldsmith's estimate by an index of personal interest, dividends, and rents, as estimated in Table II-2.
2-k.	See notes to Table C-1, line 3, this appendix.
2-l.	Table II-4, rental value of farm houses, multiplied by 0.26 (ratio supplied by Selma F. Goldsmith).
3-a.	Table III-6.
3-b.	<u>Statistics of Income</u> , Part 1.
3-c,3-d,	
3-e.	All three estimates are based on <u>Statistics of Income</u> reports. In these instances, an adjustment for unreported amounts, obtained by multiplying the reported amounts by the ratio of total estimated AGI to the reported AGI for all other items, was appropriate.
3-f.	See notes to our appendix Table B-2, lines 5 and 10. Depletion on rents and royalties was available only for 1960. Other years were extrapolated on the basis of the 1960 ratio of rents and royalties depletion to net profits.
3-g.	See notes to our appendix Table B-2, lines 6 and 11.
3-h,	
3-i.	<u>Statistics of Income</u> , Part 1.

APPENDIX C

TABLE C-3
ESTIMATED ADJUSTED GROSS INCOME ON TAX RETURNS, 1918-43
(million dollars)

	Net Income (1)	Personal Deductions (2)	AGI (3)
1918	15,925	1,156	17,081
1919	19,859	1,583	21,442
1920	23,736	1,835	25,571
1921	19,577	2,105	21,682
1922	21,336	2,241	23,577
1923	24,840	2,704	27,544
1924	25,656	2,812	28,468
1925	21,895	2,461	24,356
1926	21,959	2,647	24,606
1927	22,545	2,823	25,368
1928	24,727	3,247	27,974
1929	23,776	3,424	27,200
1930	16,579	2,997	19,576
1931	11,668	2,462	14,131
1932	10,175	2,174	12,349
1933	9,867	1,855	11,722
1934	12,384	1,727	14,111
1935	14,528	1,773	16,302
1936	18,953	2,001	20,954
1937	20,930	2,239	23,169
1938	18,548	2,129	20,672
1939	22,903	2,326	25,234
1940	36,277	3,332	39,609
1941	58,576	4,164	62,740
1942	78,691	6,421	85,112
1943	99,359	6,563	105,922

Source

Column

1. Statistics of Income. For 1918-27, only returns with net income were available. Net income on fiduciary returns is included throughout.
2. C. Harry Kahn, Personal Deductions in the Federal Income Tax, Princeton University Press for NBER, 1960, Table D-2, column 5, except that standard deductions are excluded from total personal deductions.
3. Col. 1 plus col. 2.

APPENDIX D

Estimates Based on 1948 ACP Data

TABLES 14, 15 and 16 are for the most part based on data from the 1948 Audit Control Program (ACP). Summary data were originally published by the Bureau of Internal Revenue in *The Audit Control Program*, May 1951, as well as by Marius Farioletti, "Some Results from the First Years" Audit Control Program of the Bureau of Internal Revenue, *National Tax Journal*, March 1952, Tables 8, 9 and 10. More detailed figures were only released in mimeographed form.

Table 14

The number of sole proprietors' returns filed and the total number with error are published, by broad income groups, in *The Audit Control Program*. But the breakdown of returns by error resulting in tax decrease, as well as the frequency of returns with error in the business schedule itself, was obtained from the unpublished mimeographed tabulations.

Table 15

The tax liability figures reported for all sole proprietors (column 1) and the estimated total tax change disclosable by audit (columns 3 and 4 combined) are shown in Farioletti. The tax liability voluntarily reported for all sole proprietors with error (column 2), as well as the breakdown of tax change between increase and decrease (columns 3 and 4), and the tax change for returns with error in the business schedule (column 7), were obtained from the mimeographed tabulations.

Table 16

The adjusted gross income estimates shown in columns 3 to 6 are ours. The estimated amount reported (col. 3) was obtained in the same manner as the estimates shown in Tables 20 to 23. For each of 48 income groups given in *Statistics of Income* for 1948, the frequency of sole proprietor returns was multiplied by the average AGI for all returns in the groups, which yielded an estimate of AGI reported by sole proprietors. As noted in the tables, roughly 45 per cent of the returns in the \$7,000-\$25,000 group of the ACP distribution had AGI of less than \$7,000 but gross receipts greater than \$25,000. To make the AGI distribution derived from *Statistics of Income* conform to the ACP distribution, it was assumed that these returns had an average AGI of \$6,000 and their frequency was multiplied by this amount. The resulting product was subtracted from the AGI of the under \$7,000 group and added to the AGI

APPENDIX D

of the \$7,000–\$25,000 group. The “additional AGI disclosed by audit,” shown in column 4 of Table 16, was estimated by blowing up the ACP figures for “net tax increase disclosable by audit” (col. 2) by the reciprocal of the estimated average marginal rate of tax for each of the income groups shown. The marginal rates used are those applicable to average taxable income for each of the groups, taking account of the different rates applying to joint and separate returns. Average taxable income was obtained by subtracting exemptions and deductions from AGI as tabulated in *Statistics of Income*. Because the average marginal rates used as a blow-up factor are for very wide income ranges, the computed AGI equivalent of the net tax increase disclosable by audit is likely to be a very crude estimate.

APPENDIX E

Patterns of Income on Returns Which Have Unincorporated Enterprise Income as Well as Income from Wages, Interest, Dividends, or Rents and Royalties, 1955 and 1959

APPENDIX TABLES E-1 and E-2 show the basic distributions which underlie part of Table 33 and all of Table 34 of the text. As a presentation of "patterns of income" the tables are incomplete, since frequencies for capital gains and losses and some miscellaneous income types were not included in the IRS tabulations from which our tables were derived. Tables E-1 and E-2 permit the interested readers to compute relative frequencies for any additional income source combinations not included in Table 34. The average number of sources per return for any particular source combination may also be readily obtained. For instance, column 15 of Table E-1 shows the frequency with which unincorporated enterprise income, interest, dividends, and wages and salaries occur on the same returns.

This differs from the percentage given for returns with unincorporated enterprise income that show income from specified other sources (columns 6 and 7, Table 34) because the latter does not tell us whether a return has more than one additional source or not. Conceivably every one of the returns "with income from specified other sources" could have merely one additional source. The last columns in the two tables below show that this is, of course, not so, and that the number of sources per return rises very steeply as a function of income.

To obtain a fuller picture, *relative* frequencies for the two years shown may be combined. Interest and dividends, not included in the basic 1959 tabulations, may thus be shown together with rents and royalties. Relative frequencies for the same income groups in the two years are sufficiently similar to justify this procedure. As we have seen in Tables 33 and 34, where identical combinations are available in both years, the frequencies are very similar. For instance, the percentage of returns with both sole proprietorship and partnership profit or loss rises from 4.7 to 25.4 for 1959 and from 5.3 to 26.0 for 1959.

TABLE E-1
NUMBER OF RETURNS WITH UNINCORPORATED ENTERPRISE PROFIT OR LOSS AND INCOME FROM
WAGES AND SALARIES, DIVIDENDS, OR INTEREST, 1955

Returns with Sole Proprietor and/or Partnership Income and										
Adjusted Gross Income (thousand dollars)	Total with Sole Pro- prietor and/or Partnership Income (1)	No Divi- dends, Interest, or Wages (2)	Only Interest (3)	Only Dividends (4)	Only Wages (5)	Wages and Dividends (6)	Wages and Interest (7)	Dividends and Interest (8)	Wages, Dividends, and Interest (9)	
Negative AGI	399,248	267,839	23,327	8,932	74,564	2,651	9,309	11,291	1,335	
0 - 2	2,872,156	1,814,469	190,834	41,867	715,868	9,370	46,143	42,836	10,769	
2 - 3	1,456,990	679,990	104,682	21,027	549,640	10,478	52,083	30,729	8,361	
3 - 5	2,158,793	768,220	132,002	38,217	1,000,146	25,804	115,856	47,149	31,399	
5 - 10 ^a	1,912,595	480,486	136,651	45,869	848,967	51,256	180,253	93,019	74,094	
10 - 25	791,179	194,194	94,353	45,478	140,132	45,162	71,823	102,721	97,316	
25 - 50	177,210	25,212	18,006	12,906	11,710	13,991	11,974	40,652	42,759	
50 - 100	43,640	2,870	2,460	2,971	1,791	3,789	1,926	10,876	16,957	
100 - 500	11,878	231	396	547	221	958	312	2,724	6,489	
500 or more	546	3	7	19	1	35	3	129	349	
Total	9,824,235	4,233,514	704,718	217,833	3,343,040	163,494	489,682	382,126	289,828	

(continued)

TABLE E-1 (concluded)

Adjusted Gross Income (thousand dollars)	All Sole Proprietor and/or Partnership Returns with				Frequency of Specified Sources	
	Interest ^a (10)	Dividends ^b (11)	Dividends and/or Interest ^c (12)	Wages ^d (13)	Total ^e (14)	Per Return (Col. 14 ÷ Col. 1) (15)
Negative AGI	45,262	24,209	56,845	87,859	556,578	1.39
0 - 2	290,582	104,842	341,819	782,150	4,049,730	1.41
2 - 3	195,855	70,595	227,360	620,562	2,344,002	1.61
3 - 5	326,406	142,569	390,427	1,173,205	3,800,973	1.76
5 - 10 ^f	486,017	264,238	583,142	1,154,570	3,817,420	2.00
10 - 25	366,213	290,677	456,853	354,433	1,802,502	2.28
25 - 50	113,391	110,308	140,288	80,434	481,343	2.72
50 - 100	32,219	34,593	38,979	24,463	134,915	3.09
100 - 500	9,921	10,718	11,426	7,980	40,497	3.41
500 or more	488		542	388	1,954	3.58
Total	1,866,354	1,053,281	2,247,681	4,286,044	17,029,914	1.73

Source: Statistics of Income, 1955, Table 6.^aSum of cols. 3, 7, 8, and 9.^bSum of cols. 4, 6, 8, and 9.^cSum of cols. 4, 6, and 10.^dSum of cols. 5, 6, 7, and 9.^eCol. 14 was obtained by adding to col. 2 the sum of cols. 3, 4, and 5 multiplied by two; the sum of cols. 6, 7, and 8 multiplied by three; and col. 9 multiplied by four.^fIncludes all nontaxable returns with AGI over \$5,000.

TABLE E-2

NUMBER OF RETURNS WITH UNINCORPORATED ENTERPRISE PROFIT OR LOSS AND INCOME FROM
WAGES AND SALARIES AND/OR RENTS AND ROYALTIES, 1959

Adjusted Gross Income (thousand dollars)	Total with Sole Proprietor and/or Partnership Income (1)	Returns with Sole Proprietor and/or Partner- ship Income and				All Sole Proprietor and/or Partnership Returns with			Frequency of Specified Source	
		No Rents, Royalties, or Wages (2)	Wages (3)	Rents and Royalties (4)	Wages and Rents and Royalties (5)	Wages (3) + (5) (6)	Rents and Royalties (4) + (5) (7)	Per Return (8) ÷ (7)	Total ^a (8)	(9)
Negative AGI	388,632	248,547	74,207	49,861	16,017	90,224	65,878		544,734	1.40
0 - 2	}	2,151,046	1,026,392	393,983	130,844	1,157,236	524,827		5,384,328	1.45
2 - 3										
3 - 5										
5 - 10	2,098,432	762,221	974,494	204,235	157,482	1,131,976	361,717		3,592,125	1.71
10 - 25	2,554,567	684,103	1,327,853	252,477	290,134	1,617,987	542,611		4,715,165	1.85
25 - 50	1,107,765	374,275	413,830	173,210	146,450	560,280	319,660		1,987,705	1.79
50 - 100	235,051	84,270	66,111	46,416	38,254	104,365	84,670		424,086	1.80
100 - 500	70,122	20,872	20,971	13,795	14,484	35,455	28,279		133,856	1.91
500 or more	15,467	3,394	4,922	2,785	4,366	9,288	7,151		31,906	2.06
	614	73	185	105	251	436	356		1,406	2.29
Total	10,172,915	4,328,801	3,908,965	1,136,867	798,282	4,707,247	1,935,149		16,815,311	1.65

Source: Statistics of Income, 1959, Table 8.^aCol. 8 was obtained by adding to col. 2 the sum of cols. 3 and 4 multiplied by two and col. 5 multiplied by three.

APPENDIX E

The number of specified sources per return with unincorporated enterprise income varies, thus, as follows for 1955-59:

Negative AGI	1.56
0-2 }	
2-3 }	1.63
3-5	1.93
5-10	2.21
10-25	2.57
25-50	3.08
50-100	3.49
100-500	3.87
500 and over	4.16
Total	1.92

Whereas the returns filed by persons with negative income show an average of 1.6 of the specified sources, the returns with income over \$50,000 show an average of more than four sources.

APPENDIX F

Derivation of Tables 43 Through 46

Table 43

The frequencies for this table are shown in Table F-1. The basic underlying data are found in Table 8, *Statistics of Income, Individual Returns, 1960*, where frequencies for returns with net profit from sole proprietorship are tabulated by net profit classes and AGI classes. The breakdown given is for twenty AGI groups and seventeen net profit classes.

To determine the frequency of returns in each AGI group with net profits more than 10 per cent, more than 25 per cent, and more than 50 per cent of the AGI shown on such returns, it was first necessary to determine the respective points in each AGI group that mark off the desired percentage band of frequencies. For instance, for the AGI group \$3,000-\$4,000, all returns with more than \$400 net profit clearly fell into the more-than-10 per cent group. All returns with less than \$300 were clearly in the less than 10 per cent group. Returns with net profits \$300-\$400 could be on either side of the dividing line. It was assumed

TABLE F-1

ESTIMATED NUMBER OF RETURNS WITH REPORTED NET PROFIT FROM SOLE PROPRIETORSHIP LESS THAN, OR EXCEEDING, STATED PERCENTAGE OF INCOME, BY INCOME GROUPS, 1960

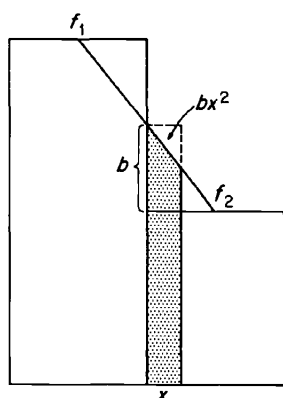
AGI Classes (thousand dollars)	Number of Returns with Net Profit				Total (5)
	Less Than 10 Per Cent of AGI (1)	Between 10 and 25 Per Cent of AGI (2)	Between 25 and 50 Per Cent of AGI (3)	More Than 50 Per Cent of AGI (4)	
Negative AGI					16,303
0 - 2	54,170	100,988	205,915	1,493,307	1,854,380
2 - 3	50,163	80,579	117,366	660,053	908,161
3 - 5	165,832	170,115	189,374	952,451	1,477,772
5 - 10	361,699	247,939	278,955	830,570	1,719,163
10 - 25	104,359	70,161	105,380	425,229	705,129
25 - 50	13,404	10,434	19,901	81,335	125,074
50 - 100	4,140	2,177	4,137	12,162	22,616
100 - 200	853	338	309	847	2,347
200 - 500	255	n.a.	n.a.	n.a.	402
500 and over	70	n.a.	n.a.	n.a.	80
Total	754,945	n.a.	n.a.	n.a.	6,831,427
Partial total (0-200)	754,620	682,731	921,337	4,455,954	6,814,642

Source: Computed from Table 8, *Statistics of Income*, 1960.

CHART F-1 **Formulas for Estimating Frequencies for a Fraction of a Class Interval**

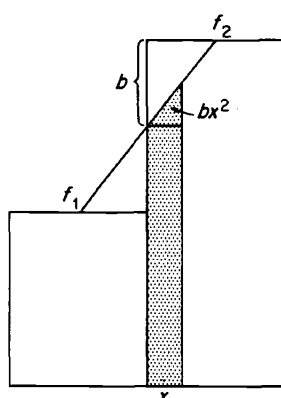
Fraction of Class Estimated Less Than One Half

Preceding Class Greater



$$\text{Shaded Area} = xf_2 + bx(1-x)$$

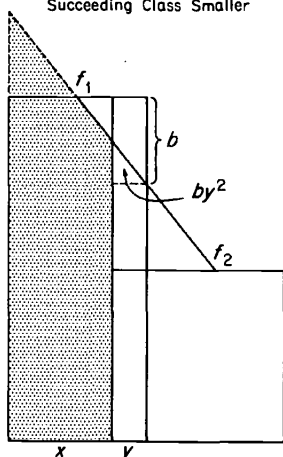
Preceding Class Smaller



$$\text{Shaded Area} = xf_2 - bx(1-x)$$

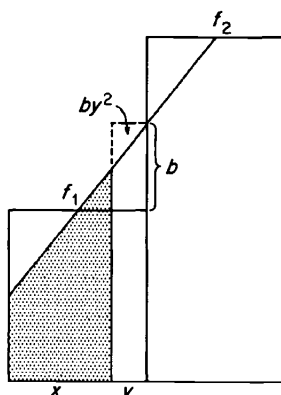
Fraction of Class Estimated More Than One Half

Succeeding Class Smaller



$$\text{Shaded Area} = f_1 - [yf_1 - by(1-y)]$$

Succeeding Class Greater



$$\text{Shaded Area} = f_1 - [yf_1 + by(1-y)]$$

APPENDIX F

that the returns in this net profit class are evenly divided in falling to either side of the 10 per cent dividing line. This assumption is most warranted whenever the density distributions with respect to both groupings are very much alike; for instance if the returns tended to be evenly distributed between each of the two sets of class limits. If most of the returns in the group were close to the \$4,000 AGI and the \$300 net profit level our assumption would be unwarranted. In most instances the assumption that the 10 per cent limit was randomly distributed within the interpolating class had only a small effect on the final result.

In the above example, the class limits within which interpolation was required, \$300-\$400 net profit, corresponded to the limits of one of the seventeen net profit classes used in the Treasury Department tabulation of frequencies. The frequencies in the class were therefore known. In many instances this was of course not so. When estimating the frequency of returns with net profit greater than 25 per cent of AGI reported on the return, the limit for the \$3,000-\$4,000 AGI group is in the \$750-\$1,000 net profit range. This range does not coincide with a given net profit class, but falls into the \$500-\$1,000 net profit class of the basic

TABLE F-2

ESTIMATED NET PROFIT ON RETURNS WITH NET PROFIT FROM SOLE PROPRIETORSHIP LESS THAN, OR EXCEEDING, STATED PERCENTAGE OF AGI, BY INCOME GROUPS, 1960
(million dollars)

AGI Classes (thousand dollars)	Net Profit				Total
	Less Than 10 Per Cent of AGI	Between 10 and 25 Per Cent of AGI	Between 25 and 50 Per Cent of AGI	More Than 50 Per Cent of AGI	
Negative AGI					53.0
0 - 2	3.5	24.9	91.3	1,505.7	1,625.3
2 - 3	6.6	34.7	109.9	1,483.9	1,635.1
3 - 5	31.7	103.3	290.7	3,351.6	3,777.3
5 - 10	124.4	220.2	934.9	5,103.7	6,383.2
10 - 25	62.2	178.5	556.2	5,751.6	6,548.6
25 - 50	21.7	75.7	272.1	2,541.3	2,910.7
50 - 100	11.6	26.6	123.7	715.1	877.0
100 - 200	3.8	6.7	15.0	93.3	118.7
200 - 500	2.9	n.a.	n.a.	n.a.	22.2
500 and over	2.8	n.a.	n.a.	n.a.	7.8
Total ^a	271.1	n.a.	n.a.	n.a.	23,958.9
Partial total (0-200)	265.4	670.5	2,393.8	20,546.2	23,876.0

Source: Computed from Table 8, Statistics of Income, 1960.

^aExcluding negative AGI.

Treasury tabulation. Hence the frequencies falling into the \$750–\$1,000 net profit range had to be estimated before one half could be included in the group with net profit over 25 per cent of AGI.

The frequencies for any fractional part of a class interval were estimated, whenever possible, with a formula which took account of changing frequency density within the class. Linear functions were assumed. That is, adjacent class intervals were connected by a straight line, drawn from midpoint to midpoint of two adjacent classes of equal width. Four formulas were employed to cover the four cases illustrated in Chart F-1.

Table 44

Dollar amounts, on which Table 44 is based, are presented in Table F-2. The same basic frequency distribution, used to construct Table 43, was used here also. Frequencies for each net profit class were multiplied by (a) the class midpoint for net profit classes up to \$5,000, since classes up to that level were sufficiently small to justify this procedure; (b) a computed mean profit for classes above the \$5,000 level. To compute mean profits from the frequency tabulation, a formula based on the Pareto curve was used.¹

The sum of the computed net profits for each AGI group was in almost all cases very close to the actually tabulated total for the group. For the \$3,000–\$4,000 AGI group, for example, the actual total was 98.6 per cent of the computed value. The computed net profit in each net profit class for the \$3,000–\$4,000 AGI group was therefore lowered by 1.4 per cent.

Following the divisions of Table 43, the estimated net profits were tabulated by size of AGI and groups more than 10, more than 25, and more than 50 per cent of AGI reported on returns with net profit.

¹ For a given class interval (well beyond the mode of the distribution) with class limits x_1 and x_2 , and cumulative frequencies above these limits of F_1 and F_2 , respectively, the mean is given by

$$\begin{aligned}\bar{X} &= ab/f, \text{ where } f = F_1 - F_2 \\ a &= F_1X_1 - F_2X_2, \text{ and} \\ b &= \frac{\log (F_1/F_2)}{\log (F_1X_1/F_2X_2)}\end{aligned}$$

For the open-end interval, with only X_1 and the frequencies above X_1 given, the mean was approximated by computing b for the closed interval immediately preceding the final interval, and using the formula,

$$\bar{X} = x_1b$$

The formulas are as presented by Maurice Liebenberg and Hyman Kaitz in "An Income Size Distribution from Income Tax and Survey Data, 1944," *Studies in Income and Wealth*, 13, New York, NBER, 1951, p. 444.

TABLE F-3

ESTIMATED MEAN EFFECTIVE TAX RATE ON NET PROFITS FOR RETURNS WITH SOLE PROPRIETORSHIP NET PROFIT
GREATER THAN 10 PER CENT AND GREATER THAN 50 PER CENT OF AGI, 1960
(dollars in millions)

AGI Classes (thousand dollars)	All Returns with Sole Proprietorship Profit				Returns with Net Profit More Than 10 Per Cent of AGI				Returns with Net Profit More Than 50 Per Cent of AGI			
	Tax		Col. 2 + Col. 1		Tax		Col. 5 + Col. 4		Tax		Col. 8 + Col. 7	
	Net Profit (1)	Liability (2)	(3)		Net Profit (4)	Liability (5)	(6)		Net Profit (7)	Liability (8)	(9)	
0 - 2	1,625.3	30.6	1.9		1,621.8	30.5	1.9		1,505.7	28.2	1.9	
2 - 3	1,635.1	80.4	4.9		1,628.5	80.0	4.9		1,483.9	72.9	4.9	
3 - 5	3,777.3	291.4	7.7		3,745.6	288.9	7.7		3,351.6	258.3	7.7	
5 - 10	6,383.2	698.3	10.9		6,258.8	684.7	10.9		5,103.7	558.3	10.9	
10 - 25	6,548.6	1,075.4	16.4		6,486.4	1,065.4	16.5		5,751.6	945.7	16.4	
25 - 50	2,910.7	720.1	24.7		2,889.1	714.8	24.7		2,541.3	628.7	24.7	
50 - 100	877.0	296.9	33.8		865.4	293.0	33.8		715.1	242.1	33.8	
100 - 200	118.7	47.8	40.3		114.9	46.3	40.3		93.3	37.6	40.3	
200 - 500	22.2	9.6	43.5		19.3	8.4	43.5		n.a.	n.a.	n.a.	
500 and over	7.8	3.6	46.0		5.0	2.3	45.8		n.a.	n.a.	n.a.	
Total	23,905.9	3,254.1	13.6		23,634.8	3,214.2	13.6		n.a.	n.a.	n.a.	
Partial total (0-200)	23,876.0	3,240.9	13.6		23,610.6	3,203.5	13.6		20,576.2	2,771.8	13.5	

Source

Col. 1: Statistics of Income.Col. 2: Statistics of Income, for method see Appendix H.Cols. 4 and 7: Table F-2.

Cols. 5 and 8: Col. 3 multiplied by cols. 4 and 7 respectively. Computation performed on narrower income classes.

TABLE F-4

ESTIMATED MEAN EFFECTIVE TAX RATE WEIGHTED BY FREQUENCIES ON ALL RETURNS WITH SOLE PROPRIETORSHIP NET PROFIT AND ON RETURNS WITH SOLE PROPRIETORSHIP NET PROFIT GREATER THAN 10 PER CENT AND GREATER THAN 50 PER CENT OF AGI, BY INCOME GROUPS, 1960

AGI Classes (thousand dollars)	All Returns with Sole Proprietorship Profit				Returns with Net Profit Greater Than 10 Per Cent of AGI				Returns with Net Profit Greater Than 50 Per Cent of AGI			
	Frequency		Mean		Frequency		Mean		Frequency		Mean	
	(1)	(2)	Weighted by Effective Tax Rate	(3)	(4)	(5)	Weighted by Effective Tax Rate	(6)	(7)	(8)	Weighted by Effective Tax Rate	(9)
0 - 2	1,854,380	25,673		1.4	1,800,210	24,769		1.4	1,493,307	20,111		1.3
2 - 3	908,161	43,766		4.8	857,998	41,322		4.8	660,053	31,767		4.8
3 - 5	1,477,772	114,070		7.7	1,311,940	100,954		7.7	952,451	73,104		7.7
5 - 10	1,719,163	187,593		10.9	1,357,464	148,125		10.9	830,570	90,631		10.9
10 - 25	705,129	111,616		15.8	600,770	95,474		15.9	425,229	68,023		16.0
25 - 50	125,074	30,944		24.7	111,670	27,628		24.7	81,335	20,123		24.7
50 - 100	22,616	7,653		33.8	18,476	6,251		33.8	12,162	4,112		33.8
100 - 200	2,347	942		40.1	1,494	596		39.9	847	335		39.6
200 - 500	402	182		45.3	147	66		44.9	n.a.	n.a.		n.a.
500 and over	80	36		45.0	10	4		40.0	n.a.	n.a.		n.a.
Total	6,815,124	522,475		7.7	6,060,179	445,189		7.3	n.a.	n.a.		n.a.
Partial total (0 - 200)	6,814,642	522,257		7.7	6,060,022	445,119		7.3	4,455,954	308,206		6.9

Source

- Col. 1: Statistics of Income.
 Col. 2: The calculation of effective tax rates is described in Appendix H. Effective tax rates were multiplied by the frequency of taxable returns by narrow AGI classes.
 Col. 3: Col. 2 divided by col. 1, the total frequency of returns with sole proprietorship profit, taxable and nontaxable.
 Cols. 4, 7: Table F-1.
 Cols. 5, 8: Col. 3 multiplied by cols. 4 and 7 respectively, except that narrower AGI classes were used. A method similar to that used in calculating col. 2 could not be used, as the basic cross classification in Statistics of Income was not available by taxable and nontaxable returns. It was then assumed that within an AGI class the distribution of taxable and nontaxable returns was random with respect to net profit.

APPENDIX G

Amounts and Frequencies of Reported Net Profits and Net Losses; Estimated Tax Liability Attributable to, and Estimated AGI on Returns with, Net Profit and Net Loss, by Sole Proprietors and Partners, Selected Years, 1939-60

THE net profits, net losses and frequencies for each AGI group are as tabulated in the Treasury Department's annual *Statistics of Income*, except for the consolidation of narrower income classes into the broader groupings shown. Adjusted gross income on returns with net profit or loss from sole proprietorship or partnership was estimated by making the simple, expedient assumption that average AGI for returns with sole proprietorship or partnership income is the same as the average AGI for all returns in the group. For that purpose, narrower income classes than those shown in the tables below were employed, thus minimizing the error which would result from bias in this method. There are no *a priori* reasons to suspect that, within the twenty-five classes used, average AGI for proprietors of unincorporated enterprises differs in a systematic fashion from that reported for all returns.

Tax liability attributable to unincorporated enterprise net income was estimated by multiplying reported net profits and net losses by the mean effective tax rate for each income class. The effective tax rate for each of the twenty-five income classes was obtained by dividing gross tax liability (i.e., tax liability before tax credits) by adjusted gross income reported for each class. Since adjusted gross income for any income class is the algebraic sum of positive and negative income components, the tax liability for unincorporated enterprise net income was obtained by multiplying the mean effective tax rate for any class by both net profits and net losses for the class. The tax liabilities shown are thus the net amounts.

TABLE G-1

AMOUNTS AND FREQUENCIES OF REPORTED NET PROFITS AND NET LOSSES; ESTIMATED TAX LIABILITY ATTRIBUTED TO, AND ESTIMATED AGI ON, RETURNS WITH NET PROFIT AND NET LOSS, BY SOLE PROPRIETORS AND PARTNERS, SELECTED YEARS, 1939-60

AGI Classes (thousand dollars)	Returns with Net Profit			Returns with Net Loss			Tax on Entrepreneurial Net Income Less That Absorbed by Net Losses (million dollars)	
	Number of Returns (in thousands)	Amount of Net Profit (million dollars)	AGI (million dollars)	Number of Returns (in thousands)	Amount of Net Loss (million dollars)	AGI (million dollars)		
SOLE PROPRIETORSHIP, 1939								
Negative AGI	7.0	13.7	-60.1	46.5	122.1	-5.2	n.a.	
0 - 2		362.2			25.5		.4	
2 - 3	773.7 ^a	538.0	1,857.6	67.1 ^a	11.5	161.2	.9	
3 - 5		723.0			13.9		6.0	
5 - 10	105.6	589.9	797.9	9.4	14.2	73.0	13.8	
10 - 25	29.8	335.6	489.1	5.1	13.8	89.0	18.5	
25 - 50	4.0	93.5	153.7	1.7	8.7	64.4	10.4	
50 - 100	.8	34.1	65.3	.7	5.1	51.7	6.1	
100 - 500	.1	11.0	25.0	.3	4.9	60.7	2.3	
500 and over	.0	1.2	3.2	.0	2.8	41.7	-.9	
Total	921.1 ^a	2,702.3	3,331.7	130.9 ^a	222.4	536.4	57.5	
PARTNERSHIP, 1939								
Negative AGI	3.7	10.4	n.a.	4.9	28.4	n.a.	n.a.	
0 - 2	n.a.	55.7	n.a.	n.a.	5.3	n.a.	.1	
2 - 3	n.a.	104.7	n.a.	n.a.	2.8	n.a.	.4	
3 - 5	n.a.	224.1	n.a.	n.a.	4.0	n.a.	2.2	
5 - 10	62.9	313.8	485.5	4.6	4.5	35.8	7.7	
10 - 25	29.4	303.9	501.0	2.7	4.4	47.3	17.8	
25 - 50	6.4	135.7	246.8	.9	2.6	34.8	16.3	
50 - 100	1.9	71.5	143.3	.3	1.4	25.7	14.6	
100 - 500	.4	29.7	78.4	.1	2.4	27.2	9.7	
500 and over	.0	1.3	13.9	.0	.4	11.3	.3	
Total	104.7 ^b	1,250.7	1,468.8	13.5 ^b	56.2	182.2 ^b	69.0	

(continued)

TABLE G-1 (continued)

AGI Classes (thousand dollars)	Returns with Net Profit			Returns with Net Loss			Tax on Entrepreneurial Net Income Less That Absorbed by Net Losses (million dollars)
	Number of Returns (in thousands)	Amount of Net Profit (million dollars)	AGI	Number of Returns (in thousands)	Amount of Net Loss (million dollars)	AGI	
SOLE PROPRIETORSHIP, 1945							
Negative AGI	6.7	11.5	-10.8	147.3	290.1	-237.1	n.a.
0 - 2	2,666.5	2,503.0	2,960.0	208.6	117.5	225.7	145.6
2 - 3	1,029.0	1,854.9	2,533.4	96.9	46.2	238.7	175.1
3 - 5	893.3	2,428.6	3,380.6	66.2	41.1	246.2	285.8
5 - 10	456.5	2,456.7	3,092.1	27.2	38.2	185.5	427.9
10 - 25	186.9	2,158.7	2,747.3	15.9	46.4	245.7	572.2
25 - 50	32.2	731.8	981.1	6.0	26.4	177.8	284.9
50 - 100	3.7	296.0	425.1	1.4	17.0	153.4	143.8
100 - 500	1.4	131.3	215.6	1.0	14.5	168.7	72.4
500 and over	.0	11.0	31.5	.1	2.9	84.5	6.2
Total	5,276.3	12,583.5	16,356.2	570.6	640.2	1,489.2	2,113.9
PARTNERSHIP, 1945							
Negative AGI	3.9	12.9	-6.3	15.4	62.4	-24.7	n.a.
0 - 2	369.7	366.4	448.7	29.2	20.3	32.6	22.7
2 - 3	248.7	431.1	619.5	21.0	8.4	51.7	41.1
3 - 5	300.8	786.0	1,161.9	18.1	9.1	68.0	94.2
5 - 10	257.5	1,316.0	1,798.3	12.4	13.7	85.7	235.6
10 - 25	175.0	1,984.6	2,680.8	8.5	16.6	131.5	548.5
25 - 50	53.6	1,198.6	1,626.1	2.7	8.9	81.5	483.4
50 - 100	8.9	716.2	983.5	.6	5.7	63.4	366.1
100 - 500	3.7	364.8	571.3	.4	3.4	69.2	218.7
500 and over	.1	32.2	68.8	.0	.4	25.4	20.9
Total	1,421.9	7,208.7	9,952.7	108.2	148.9	584.3	2,031.2

(continued)

TABLE G-1 (continued)

AGI Classes (thousand dollars)	Returns with Net Profit			Returns with Net Loss			Tax on Entrepreneurial Net Income Less That Absorbed by Net Losses (million dollars)
	Number of Returns (in thousands)	Amount of Net Profit (million dollars)	AGI (million dollars)	Number of Returns (in thousands)	Amount of Net Loss (million dollars)	AGI (million dollars)	
SOLE PROPRIETORSHIP, 1949							
Negative AGI	13.1	16.5	-20.4	308.9	763.7	-481.9	n.a.
0 - 2	2,481.0	2,512.0	2,878.9	231.4	179.1	236.7	34.2
2 - 3	1,201.1	2,361.1	2,968.4	121.0	78.7	302.5	83.1
3 - 5	1,193.1	3,340.9	4,575.6	147.4	129.7	567.9	191.9
5 - 10	637.0	3,208.1	4,298.8	56.2	70.0	365.3	318.7
10 - 25	241.4	2,730.4	3,535.9	19.7	69.0	296.7	413.3
25 - 50	41.4	994.5	1,377.1	6.9	44.3	236.2	229.8
50 - 100	8.0	336.9	526.2	3.0	30.1	209.5	104.1
100 - 500	1.6	114.9	251.4	1.6	28.2	277.0	39.1
500 and over	.0	14.3	52.8	.1	6.1	144.4	4.7
Total	5,817.8	15,629.5	20,444.8	896.2	1,398.9	2,154.2	1,418.9
PARTNERSHIP, 1949							
Negative AGI	9.5	17.6	-14.9	56.2	189.4	-87.6	n.a.
0 - 2	543.7	540.5	651.8	61.0	61.7	65.3	12.5
2 - 3	329.9	590.6	818.6	40.9	29.4	102.5	24.2
3 - 5	460.2	1,200.1	1,793.7	57.0	52.0	219.5	75.5
5 - 10	359.9	1,605.9	2,476.8	39.1	36.3	260.8	161.4
10 - 25	195.6	1,959.5	2,955.8	17.0	30.9	258.5	305.5
25 - 50	52.1	1,088.9	1,775.6	4.8	16.8	163.0	259.7
50 - 100	15.9	596.9	1,057.4	1.7	10.7	117.5	198.7
100 - 500	4.1	298.9	640.8	.8	8.7	139.3	125.5
500 and over	.1	18.3	88.2	.1	2.3	74.9	9.2
Total	1,971.0	7,912.2	12,243.9	278.3	438.1	1,313.5	1,172.2

(continued)

TABLE G-1 (continued)

AGI Classes (thousand dollars)	Returns with Net Profit			Returns with Net Loss			Tax on Entrepreneurial Net Income Less That Absorbed by Net Losses (million dollars)
	Number of Returns (in thousands)	Amount of Net Profit (million dollars)	AGI (million dollars)	Number of Returns (in thousands)	Amount of Net Loss (million dollars)	AGI (million dollars)	
SOLE PROPRIETORSHIP, 1952							
Negative AGI	13.0	14.3	-27.2	295.9	873.9	-558.3	-18.8
0 - 2	1,981.0	2,001.3	2,323.2	250.4	247.0	271.0	70.5
2 - 3	1,089.9	2,132.9	2,717.3	141.5	123.4	356.5	135.1
3 - 5	1,341.7	3,602.6	5,213.2	220.8	203.7	917.3	306.5
5 - 10	920.6	4,087.5	6,215.4	118.8	122.6	779.3	526.5
10 - 20	310.8	3,160.0	4,179.4	28.0	77.6	379.8	575.2
20 - 50	117.9	2,443.8	3,423.7	17.1	99.5	528.0	654.0
50 - 100	14.3	563.4	947.9	5.5	58.2	364.7	208.5
100 - 500	2.6	176.0	395.9	2.6	61.0	445.6	58.7
500 and over	.1	13.2	59.5	.2	16.5	208.5	-2.1
Total	5,791.8	18,195.0	25,448.3	1,080.9	1,883.4	3,692.4	2,514.1
PARTNERSHIP, 1952							
Negative AGI	7.4	34.7	-15.1	38.4	150.2	-72.5	-4.5
0 - 2	270.0	270.6	326.4	35.7	38.8	36.5	13.8
2 - 3	199.2	375.6	499.8	21.5	19.0	53.7	30.0
3 - 5	363.4	1,005.5	1,438.1	43.7	42.0	172.9	93.1
5 - 10	437.6	1,897.7	3,006.0	39.1	26.0	345.6	249.5
10 - 20	210.1	1,913.6	2,865.2	16.4	31.9	223.8	353.3
20 - 50	110.2	2,074.6	3,287.6	9.1	34.1	274.0	579.0
50 - 100	21.7	824.1	1,439.5	2.7	18.3	178.8	332.5
100 - 500	5.5	418.6	848.3	1.4	24.8	248.2	203.4
500 and over	.1	18.9	126.5	.1	6.5	95.6	7.9
Total	1,625.3	8,833.8	13,822.3	208.2	391.5	1,556.6	1,858.1

(continued)

TABLE G-1 (continued)

AGI Classes (thousand dollars)	Returns with Net Profit			Returns with Net Loss			Tax on Entrepreneurial Net Income Less That Absorbed by Net Losses (million dollars)
	Number of Returns (in thousands)	Amount of Net Profit (million dollars)	AGI (million dollars)	Number of Returns (in thousands)	Amount of Net Loss (million dollars)	AGI (million dollars)	
SOLE PROPRIETORSHIP, 1953							
Negative AGI							
0 - 2	20.1	30.7	-54.7	317.3	940.6	-868.3	-23.6
2 - 3	2,063.9	2,006.6	2,386.8	286.5	278.8	303.5	70.2
3 - 5	1,087.3	2,108.2	2,711.8	153.3	132.2	382.2	134.9
5 - 10	1,456.7	3,905.3	5,671.4	297.0	213.1	1,167.1	340.3
10 - 20	1,035.4	4,432.8	6,992.9	172.7	150.6	1,132.8	557.0
20 - 50	335.0	3,319.0	4,483.9	33.1	91.1	444.5	596.3
50 - 100	109.5	2,256.1	3,129.7	15.2	93.7	453.3	592.7
100 - 500	11.4	472.7	759.0	4.1	53.8	273.1	171.0
500 and over	1.9	138.7	293.1	2.0	50.2	340.1	45.0
Total	6,121.5	18,677.7	26,417.6	1,281.4	2,014.1	3,795.4	-1.6
							2,482.4
PARTNERSHIP, 1953							
Negative AGI							
0 - 2	10.3	18.5	-28.1	55.2	248.9	-150.9	-7.1
2 - 3	303.4	328.8	366.8	39.2	35.9	37.9	15.9
3 - 5	193.3	381.3	479.4	26.0	22.7	64.1	30.0
5 - 10	368.8	1,032.2	1,460.7	45.2	43.7	176.6	98.1
10 - 20	426.9	1,907.9	2,970.7	43.3	34.6	291.6	247.8
20 - 50	208.4	1,900.6	2,839.2	17.4	32.0	237.3	347.5
50 - 100	113.6	2,091.3	3,340.1	10.7	37.4	325.5	571.7
100 - 500	19.9	754.1	1,318.3	3.1	22.0	205.2	298.4
500 and over	4.9	371.4	750.1	1.4	28.1	245.1	174.8
Total	1,649.6	8,802.9	13,600.9	241.5	515.7	1,566.0	4.1
							1,781.2

(continued)

TABLE G-1 (continued)

AGI Classes (thousand dollars)	Returns with Net Profit			Returns with Net Loss			Tax on Entrepreneurial Net Income Less That Absorbed by Net Losses (million dollars)
	Number of Returns (in thousands)	Amount of Net Profit (million dollars)	AGI (million dollars)	Number of Returns (in thousands)	Amount of Net Loss (million dollars)	AGI (million dollars)	
SOLE PROPRIETORSHIP, 1954							
Negative AGI	16.6	16.0	-38.3	349.8	1,015.3	-806.0	-19.3
0 - 2	2,191.7	2,094.3	2,460.4	319.8	298.7	341.7	31.1
2 - 3	1,078.1	2,051.1	2,678.0	192.9	186.1	480.9	83.7
3 - 5	1,426.0	3,690.2	5,547.0	328.8	249.2	1,293.4	253.0
5 - 10	1,095.1	4,587.6	7,450.3	201.4	192.5	1,331.1	506.1
10 - 20	367.5	3,540.9	4,915.6	43.4	110.2	591.9	564.0
20 - 50	128.8	2,551.3	3,692.3	20.0	109.4	591.6	596.0
50 - 100	14.4	546.6	949.3	5.7	69.2	379.5	174.8
100 - 500	2.6	147.9	391.1	2.6	61.5	450.2	38.9
500 and over	.1	8.7	83.4	.2	16.7	230.7	-4.5
Total	6,320.8	19,234.6	28,129.1	1,464.7	2,308.8	4,884.9	2,223.9
PARTNERSHIP, 1954							
Negative AGI	10.8	30.2	-24.9	47.9	218.5	-110.4	-5.5
0 - 2	243.1	246.3	279.1	30.9	25.0	31.0	5.5
2 - 3	171.7	334.5	432.1	21.1	15.9	53.5	17.8
3 - 5	360.5	1,023.8	1,425.7	45.7	49.7	179.0	78.8
5 - 10	423.7	1,919.0	2,966.2	46.4	35.6	314.0	221.5
10 - 25	224.7	1,984.4	3,053.6	19.7	37.0	265.6	321.9
25 - 50	124.6	2,191.5	3,665.0	12.2	34.3	368.5	535.0
50 - 100	23.3	845.9	1,539.4	3.3	21.9	217.7	299.5
100 - 500	5.6	400.7	861.6	1.7	30.3	289.4	170.9
500 and over	.1	27.8	122.4	.2	10.0	170.2	10.1
Total	1,588.0	9,004.0	14,320.1	228.9	478.2	1,778.5	1,655.5

(continued)

TABLE G-1 (continued)

AGI Classes (thousand dollars)	Returns with Net Profit			Returns with Net Loss			Tax on Entrepreneurial Net Income Less That Absorbed by Net Losses (million dollars)
	Number of Returns (in thousands)	Amount of Net Profit (million dollars)	AGI (million dollars)	Number of Returns (in thousands)	Amount of Net Loss (million dollars)	AGI (million dollars)	
SOLE PROPRIETORSHIP, 1955							
Negative AGI	12.5	31.0	-26.1	351.2	870.0	-730.9	-18.3
0 - 2	2,299.4	2,159.4	2,574.1	319.6	263.1	328.8	33.9
2 - 3	1,110.6	2,054.1	2,757.1	169.3	143.4	426.1	88.7
3 - 5	1,486.4	3,803.6	5,807.8	346.2	261.3	1,366.1	270.0
5 - 10	1,240.3	4,821.0	8,410.7	247.6	248.5	1,632.7	524.6
10 - 25	481.8	5,024.1	7,040.9	52.5	138.0	759.6	847.8
25 - 50	87.2	1,963.9	2,899.4	13.7	87.3	458.8	489.2
50 - 100	15.7	594.8	1,041.7	5.3	59.4	352.6	190.8
100 - 500	2.5	136.1	383.2	3.0	77.0	501.3	25.3
500 and over	.1	9.2	61.5	.2	19.2	280.2	-5.4
Total	6,736.4	20,597.2	30,950.3	1,508.7	2,167.2	5,375.5	2,446.7
PARTNERSHIP, 1955							
Negative AGI	7.9	22.6	-16.4	48.6	199.2	-101.0	-4.9
0 - 2	256.0	245.7	289.7	42.2	48.3	39.1	6.3
2 - 3	185.3	352.1	464.3	26.4	24.3	66.5	17.3
3 - 5	350.7	991.6	1,386.0	47.8	31.9	192.2	77.7
5 - 10	461.8	2,020.8	3,245.6	53.4	70.0	365.5	229.5
10 - 25	302.8	2,841.5	4,545.2	31.7	57.2	473.5	488.7
25 - 50	91.0	1,746.1	3,067.9	10.3	32.2	351.0	451.1
50 - 100	25.1	864.4	1,666.8	4.3	26.6	287.5	298.6
100 - 500	6.8	430.4	1,054.0	2.1	29.0	375.2	179.2
500 and over	.2	38.0	206.6	.2	10.7	209.2	15.1
Total	1,687.6	9,553.4	15,909.8	267.1	529.5	2,258.6	1,758.5

(continued)

(continued)

TABLE G-1 (continued)

AGI Classes (thousand dollars)	Returns with Net Profit			Returns with Net Loss			Tax on Entrepreneurial Net Income Less That Absorbed By Net Losses (million dollars)
	Number of Returns (in thousands)	Amount of Net Profit (million dollars)	AGI (million dollars)	Number of Returns (in thousands)	Amount of Net Loss (million dollars)	AGI (million dollars)	
SOLE PROPRIETORSHIP, 1956							
Negative AGI	16.4	32.0	-35.3	327.2	885.6	-706.5	-17.5
0 - 2	2,256.2	2,141.5	2,542.5	301.4	308.5	309.0	38.1
2 - 3	1,193.1	2,230.7	2,965.1	208.4	186.5	521.7	101.6
3 - 5	1,691.0	4,390.1	6,655.9	351.5	265.3	1,391.6	319.8
5 - 10	1,527.7	5,860.7	10,410.6	303.2	294.1	2,015.3	632.0
10 - 25	571.5	5,735.3	8,257.0	73.3	162.6	1,048.5	956.2
25 - 50	103.7	2,383.2	3,485.5	16.2	80.5	544.3	603.3
50 - 100	18.7	729.1	1,240.3	6.6	65.9	439.2	238.5
100 - 500	2.8	149.9	426.2	3.3	107.7	556.2	17.9
500 and over	.1	9.4	63.7	.3	20.5	294.3	-6.1
Total	7,381.3	23,661.9	36,011.4	1,591.4	2,377.2	6,413.6	2,884.0
PARTNERSHIP, 1956							
Negative AGI	11.1	24.4	-24.0	37.8	207.4	-81.7	-5.1
0 - 2	196.2	203.8	232.7	28.8	42.5	29.5	5.4
2 - 3	140.1	262.2	353.0	19.6	24.1	49.8	13.8
3 - 5	301.7	836.8	1,196.1	40.3	33.4	166.6	63.9
5 - 10	456.7	1,934.2	3,216.0	64.3	58.1	446.4	217.6
10 - 25	318.3	2,998.8	4,768.6	34.7	62.8	523.9	511.2
25 - 50	92.4	1,778.0	3,104.2	11.7	40.1	392.1	455.4
50 - 100	27.6	927.3	1,825.3	5.1	26.5	340.1	323.9
100 - 500	6.7	403.6	1,022.0	2.2	33.4	377.9	164.5
500 and over	.2	23.7	174.0	.2	12.4	214.5	6.2
Total	1,550.8	9,393.0	15,867.9	244.7	540.7	2,459.3	1,756.8

(continued)

TABLE G-1 (continued)

AGI Classes (thousand dollars)	Returns with Net Profit		Returns with Net Loss		Tax on Entrepreneurial Net Income Less That Absorbed by Net Losses (million dollars)	
	Number of Returns (in thousands)	Amount of Net Profit (million dollars)	Number of Returns (in thousands)	Amount of Net Loss (million dollars)	AGI (million dollars)	
SOLE PROPRIETORSHIP, 1957						
Negative AGI	17.6	63.8	313.2	834.8	-714.0	-16.0
0 - 2	2,043.6	1,840.6	279.2	289.3	284.2	31.8
2 - 3	997.5	1,812.3	174.0	163.4	434.8	83.6
3 - 5	1,534.4	3,983.3	335.8	240.2	1,329.5	292.6
5 - 10	1,483.9	5,719.7	284.2	262.6	1,906.2	614.4
10 - 25	572.8	5,732.5	64.0	148.4	906.2	950.7
25 - 50	102.0	2,384.6	15.3	86.6	511.5	592.6
50 - 100	20.9	820.8	6.5	76.6	426.5	265.0
100 - 500	2.6	160.9	2.7	64.6	468.1	42.4
500 and over	.1	7.5	.2	20.1	202.9	-7.1
Total	6,775.3	22,525.9	1,475.0	2,186.6	5,755.6	2,850.0
PARTNERSHIP, 1957						
Negative AGI	10.7	26.7	44.8	217.1	-102.1	-4.9
0 - 2	202.3	213.5	30.9	61.9	32.5	4.8
2 - 3	147.5	280.4	16.9	17.6	42.7	14.2
3 - 5	304.2	838.7	50.9	45.5	206.6	64.5
5 - 10	467.9	2,028.8	62.7	69.7	446.4	228.7
10 - 25	338.1	3,124.4	38.2	61.8	579.1	528.0
25 - 50	98.8	1,945.6	13.4	37.2	446.8	492.5
50 - 100	30.3	1,033.2	5.8	33.4	381.5	355.7
100 - 500	6.6	441.8	2.2	45.0	381.2	177.7
500 and over	.2	30.6	.2	15.4	177.7	8.8
Total	1,606.5	9,963.7	266.0	604.8	2,592.5	1,870.0

(continued)

TABLE G-1 (continued)

AGI Classes (thousand dollars)	Returns with Net Profit			Returns with Net Loss			Tax on Entrepreneurial Net Income Less That Absorbed by Net Losses (million dollars)
	Number of Returns (in thousands)	Amount of Net Profit (million dollars)	AGI	Number of Returns (in thousands)	Amount of Net Loss (million dollars)	AGI	
SOLE PROPRIETORSHIP, 1958							
Negative AGI	13.2	21.7	-34.7	278.5	830.7	-733.7	-15.2
0 - 2	2,001.7	1,830.8	2,194.1	285.0	278.0	280.5	31.7
2 - 3	998.6	1,815.5	2,481.9	174.7	158.4	439.1	81.6
3 - 5	1,609.3	4,203.6	6,251.0	330.4	272.5	1,299.6	301.1
5 - 10	1,530.3	5,906.7	10,526.4	330.9	271.8	2,223.8	630.2
10 - 25	602.1	5,862.1	8,701.7	77.9	178.2	1,096.9	962.6
25 - 50	106.4	2,470.7	3,544.9	14.4	87.8	478.2	607.7
50 - 100	16.7	639.4	1,103.9	5.4	58.9	355.4	202.4
100 - 500	2.4	130.2	369.0	2.6	62.8	488.0	28.9
500 and over	.1	9.1	60.3	.2	17.3	214.1	-3.9
Total	6,880.8	22,890.0	35,198.5	1,499.9	2,216.4	6,102.1	2,827.3
PARTNERSHIP, 1958							
Negative AGI	7.7	17.4	-20.2	37.5	205.9	-98.9	-5.0
0 - 2	215.9	222.7	240.9	32.2	36.2	30.3	5.4
2 - 3	142.1	261.7	354.4	18.0	18.0	45.2	13.1
3 - 5	301.4	825.4	1,180.1	42.6	39.8	167.4	60.8
5 - 10	463.5	1,982.1	3,253.0	67.2	55.7	485.1	216.6
10 - 25	343.7	3,073.4	5,154.1	47.5	78.3	722.5	512.3
25 - 50	100.2	1,900.4	3,337.3	13.0	48.7	434.4	472.1
50 - 100	30.5	1,077.7	2,011.8	5.4	33.1	355.2	362.9
100 - 500	6.3	422.3	964.2	2.4	44.6	418.1	165.1
500 and over	.2	27.2	186.8	.2	18.2	236.9	4.8
Total	1,611.5	9,810.2	16,662.4	266.3	578.4	2,796.2	1,808.1

(continued)

TABLE G-1 (continued)

AGI Classes (thousand dollars)	Returns with Net Profit			Returns with Net Loss			Tax on Entrepreneurial Net Income Less That Absorbed by Net Losses (million dollars)
	Number of Returns (in thousands)	Amount of Net Profit (million dollars)	AGI (million dollars)	Number of Returns (in thousands)	Amount of Net Loss (million dollars)	AGI (million dollars)	
SOLE PROPRIETORSHIP, 1959							
Negative AGI	16.4	76.4	-57.8	338.6	1,187.9	-1,189.7	-21.0
0 - 2	1,958.5	1,720.1	2,104.2	315.2	322.4	435.6	29.5
2 - 3	932.0	1,670.9	2,318.6	173.6	182.4	319.5	74.2
3 - 5	1,464.9	3,777.6	5,779.6	358.1	337.2	1,427.1	269.9
5 - 10	1,679.2	6,300.4	11,625.1	399.8	373.8	2,716.4	657.2
10 - 25	684.9	6,557.4	9,852.4	99.7	209.5	1,402.7	1,061.1
25 - 50	127.8	2,969.5	4,281.5	17.8	96.7	595.5	726.0
50 - 100	27.3	1,060.7	1,795.2	8.7	89.5	570.3	334.0
100 - 500	3.5	181.5	512.4	3.4	71.0	570.4	45.0
500 and over	.1	8.2	56.1	.2	21.2	274.2	-6.4
Total	6,894.6	24,322.7	38,267.3	1,715.1	2,891.5	7,122.0	3,169.6
PARTNERSHIP, 1959							
Negative AGI	7.8	23.7	-27.4	44.2	198.1	-155.2	-4.2
0 - 2	202.6	204.8	230.9	30.0	66.6	30.0	4.9
2 - 3	132.9	253.6	330.6	20.9	19.0	51.9	12.4
3 - 5	290.9	799.7	1,167.4	41.0	46.7	164.6	62.8
5 - 10	491.3	2,003.2	3,479.4	83.7	70.0	584.1	215.5
10 - 25	368.6	3,190.0	5,530.1	52.6	83.6	782.5	526.3
25 - 50	105.0	1,906.3	3,518.1	18.7	58.6	626.6	467.0
50 - 100	38.2	1,269.1	2,512.1	7.6	44.2	499.7	421.3
100 - 500	8.3	528.0	1,292.2	3.1	53.9	540.8	198.7
500 and over	.2	40.1	227.3	.2	16.2	273.4	11.5
Total	1,645.7	10,220.4	18,260.8	302.0	656.9	3,398.5	1,916.0

(continued)

TABLE G-1 (concluded)

AGI Classes (thousand dollars)	Returns with Net Profit			Returns with Net Loss			Tax on Entrepreneurial Net Income Less That Absorbed by Net Losses (million dollars)
	Number of Returns (in thousands)	Amount of Net Profit (million dollars)	AGI (million dollars)	Number of Returns (in thousands)	Amount of Net Loss (million dollars)	AGI (million dollars)	
SOLE PROPRIETORSHIP, 1960							
Negative AGI	16.3	53.0	-40.9	327.4	1,058.9	-820.7	-16.3
0 - 2	1,854.4	1,625.3	1,986.6	309.9	311.1	308.3	28.1
2 - 3	908.2	1,635.1	2,264.4	179.8	198.3	449.9	71.6
3 - 5	1,477.8	3,777.3	5,838.8	370.7	356.3	1,482.2	264.0
5 - 10	1,719.2	6,383.2	11,982.6	441.7	434.0	3,006.1	653.0
10 - 25	705.2	6,549.8	10,134.6	109.0	220.7	1,519.3	1,042.2
25 - 50	125.1	2,910.7	4,173.1	18.4	89.2	613.3	698.1
50 - 100	22.6	876.5	1,485.9	7.3	82.3	477.9	269.0
100 - 500	2.7	140.3	417.7	3.1	114.6	540.7	10.2
500 and over	.1	7.7	78.0	.2	21.8	258.6	-6.6
Total	6,831.4	23,958.9	38,320.8	1,767.5	2,887.2	7,835.6	3,013.2
PARTNERSHIP, 1960							
Negative AGI	10.2	31.1	-25.7	46.1	261.7	-115.6	-5.7
0 - 2	185.6	179.6	209.8	33.7	43.6	33.0	4.1
2 - 3	120.6	213.5	301.3	18.7	66.3	46.2	10.6
3 - 5	264.5	729.6	1,060.8	45.1	54.7	184.7	55.4
5 - 10	480.4	1,922.6	3,438.2	87.5	105.7	626.9	204.0
10 - 25	377.6	3,184.1	5,690.9	66.2	103.6	981.2	516.4
25 - 50	111.1	2,023.6	3,705.7	21.8	60.4	725.8	485.7
50 - 100	32.2	1,017.7	2,115.6	7.6	39.2	501.2	331.5
100 - 500	6.9	430.2	1,091.0	2.7	44.3	486.7	158.8
500 and over	.2	25.6	198.5	.2	11.9	257.8	6.4
Total	1,589.2	9,757.5	17,786.2	329.7	791.4	3,727.9	1,767.2

Source: Statistics of Income.Figure based on number of businesses, not total number of returns. ^b 0-5 AGI class not available and not in totals.

APPENDIX H

Computation of Mean Effective and Marginal Tax Rates (Derivation of Tables 42 and 48)

Mean Effective Rates

THE mean effective tax rates on net profits and net losses—as summarized in Table 42 of the text—are simply weighted averages of effective tax rates computed by income groups. For the years 1952–60, gross tax liabilities (i.e., tax liabilities before tax credits) were divided by adjusted gross income for twenty-five AGI groups. The gross effective rate thus obtained for a given income group is the effective rate assigned to net profits and net losses reported in that income group. In summing effective rates for the whole distribution, the rates for each income group were weighted by the net profits reported in that group to obtain a mean effective rate on net profits, and by the net losses reported in the group to obtain a mean rate on net losses.

By this method, the fact that effective rates are at all times the joint product of a number of income components is taken into account. It would have been inconsistent with the concept of an average effective rate to have treated net losses in an incremental manner. This accounts for our resistance to the temptation to impute a higher effective rate to net losses than to net profits reported in the same income group. The argument in favor of such a procedure would be that net losses have the effect of lowering tax and effective rate below what it would otherwise have been. Indeed, our method assigns zero effective rate to net losses reported on nontaxable returns although such returns might have been taxable in the absence of net loss.

But it is obvious that had negative income items been treated in this incremental fashion the same would have had to be done for positive income items. For had we assigned to negative income the rates at which positive income would have been taxed in the absence of negative components, the same rates would now have to be assigned to the positive components. The effective rates assigned to the various components of income would now be higher than those actually paid. A simple example will illustrate the problem. A taxpayer whose adjusted gross income is \$10,000 and whose tax is \$1,000 is said to have an effective rate of .10.

APPENDIX H

His income consists of

Wages	\$9,000
Dividends	3,000
Business	<u>-2,000</u>
AGI	10,000

We can say that his dividends are taxed at 10 per cent, but only if we consider his business income also taxed at 10 per cent. If this were not done, a 10 per cent effective rate would overstate his tax load since it results in \$1,200 of tax.

To use a higher effective tax rate on net losses, on the grounds that the latter account for a lower tax liability than would have had to be paid, would lead to obvious difficulties. All negative income components would have to be assigned a higher effective rate than positive income components of identical incomes.

The mean effective rates computed, as described above, are weighted by amounts of net profits (net loss). For some purposes it may be desired to give the effective rate of each return with net profit (net loss) equal weight, i.e., to weight the averages obtained for a given income group by frequencies. Below, mean rates computed by both methods are presented for 1960 for all returns (taxable and nontaxable):

	<i>Sole Proprietorship</i>		<i>Partnership</i>	
	Net Profit	Net Loss	Net Profit	Net Loss
Effective rates weighted by:				
dollar amounts	13.6	8.3	19.0	11.0
frequencies	7.6	7.5	17.7	11.1

Mean Marginal Rates

Mean marginal rates on net profits and net losses are calculated to measure the change in tax liability associated with a small change in net profit or net loss. The procedure used was to compute the change between income groups in tax liability per return and in taxable income per return. The change in tax liability was then divided by the change in taxable income, which gave us a marginal tax rate. The marginal rate thus computed was always assigned to the lower of the two income groups involved in computing the ratio. This procedure, of course, left the highest income group in the distribution—returns with more than \$1 million AGI—without a computed rate. The highest marginal rate in the schedule was therefore assigned to the (quantitatively unimportant)

open-end group. It should be noted that the procedure employed in computing the marginal rates automatically takes into account variations, by income groups, in family size and marital status as well as variations in personal deductions.

The marginal rates computed for each of twenty-four income groups were then once more weighted to obtain a mean marginal rate. The weights used were the amounts of net profit (net loss) reported in the income group for which the marginal rate was computed. The mean marginal rate thus obtained gives most weight to the income groups with the greatest concentration of net profits (net losses). The reasons for this procedure have been fully explained in the text. A second method for which results were presented in the text, weighting by frequencies, requires no further explanation.

APPENDIX I

Note on Estimate of Net Operating Loss Deduction

PRACTICALLY no data have been published on net operating losses for given years and resulting net operating loss deductions for prior and succeeding years. For the sake of completeness, rough estimates of net operating loss were made, and tax equivalents for net operating loss deductions were included, in Tables 40, 42, and 48.

To estimate net operating loss for a given year, the amount of net losses reported on returns with negative AGI was used as a starting point. Because persons filing such returns had also income from other sources, the net losses reported on these returns did not immediately become net operating losses subject to carryback and carryforward.

To explain the rough estimates of net operating loss, which were possible with the available data, the computations made are shown for 1952 and 1959 in Table I-1. Of the 433,135 returns with negative AGI for 1959, 388,632, or 90 per cent, were returns with profit or loss (mainly loss) from unincorporated enterprise. Most of the other income reported in the negative AGI group alongside sole proprietor and partnership losses must then have been reported on the same returns as these losses. The ratio of the number of returns with unincorporated enterprise net loss to all returns in the group was used to compute the amounts of other income that must be offset against the reported net losses in the group to obtain an estimate of net operating loss.

For 1959, a net operating loss of \$858 million on returns of sole proprietors and \$172 million on returns of partners was estimated. Since some returns have both sole proprietor and partnership net loss, these two figures are not additive. Separate estimates were required, however, since the effective and marginal rate estimates in Tables 42 and 48 are for sole proprietors and partners separately.

The most tenuous element in the estimates is the amount of negative tax liability ascribed to net operating losses. It was assumed that all of the net operating loss is either carried back or carried forward. The only hint on the distribution, by income groups, of the carryover to other years is the published net operating loss carryforward deductions for 1951-54 and 1960-61. The distributions for these years for taxable and nontaxable returns were combined and averaged. The percentage distribution of the average carryforward for five years is shown in Table I-2. It was used as the basis for distributing the estimated net operating loss for 1960 by income groups. Only the four-year average of 1951-54 carryforwards was used to obtain annual net operating loss distributions

TABLE 1-1

COMPUTATION OF NET OPERATING LOSS ESTIMATE FOR 1952 AND 1959
(million dollars)

	Net Operating Loss on 1952 Returns with				Net Operating Loss on 1959 Returns with			
	Total in Negative AGI Group (1)	Sole Proprietor Net Loss (2)	Partner- ship Net Loss (3)	Sole Proprietor- ship and/or Partnership Net Loss (4)	Total in Negative AGI Group (5)	Sole Proprietor Net Loss (6)	Partner- ship Net Loss (7)	Sole Proprietor- ship and/or Partnership Net Loss (8)
A. Net operating loss components								
1. Partnership net loss	150	59	150	150	198	77	198	198
2. Sole proprietor net loss	874	874	44	874	1,188	1,188	60	1,188
3. Other negative components:								
Net loss from sale of property	51				93			
other than capital assets								
Net loss from estates and trusts	n.a.				3			
Itemized personal deductions	27				n.a.			
Rents and royalties net loss	25				70			
Total, line 3	102	72	9	77	166	130	17	140
4. Total (lines 1 through 3) ^a	1,126	1,004	204	1,101	1,552	1,395	275	1,526
B. Net operating loss offset components								
5. Positive income components								
other than unincorporated								
enterprise net profits	430	302	39	325	661	517	67	556
6. Partnership net profits	35	27		27	24	21		21
7. Sole proprietorship net profits	14		4	4	76		36	36
8. Total (lines 5 through 7)	481	330	44	356	763	539	103	612
C. Estimated net operating loss (line 4 minus line 8) ^a		676	160	746		858	172	914

APPENDIX I

for 1952-59. To each such distribution, the effective and marginal rates of that year were then applied for the computations underlying Tables 42 and 48, respectively. It was in this manner that the estimated negative tax liability of \$23 million for 1952 and \$22 million for 1960, shown in Table 40, were arrived at.

NOTES TO TABLE I-1

- | | |
|-------------|---|
| <u>Line</u> | |
| 1 and 2. | Proportion of partnership (sole proprietor) net loss assigned to returns with sole proprietor (partnership) net loss was determined by utilizing the information on frequency of returns with both sole proprietor and partnership income for 1955 and 1959 (see Appendix E). For the negative AGI group, 5 per cent had profit or loss from both sources. This meant that a large proportion of partnership net loss (39 per cent for both years) would be reported on returns with sole proprietor net loss, but a much smaller proportion of sole proprietor net loss would be on returns with partnership net loss (5.1 per cent in both years) simply because there were far more sole proprietor than partnership returns in the group. |
| 3. | The share of other negative components reported on returns with net loss from sole proprietorship, or partnership, respectively, was estimated by multiplying the negative components shown by the ratio of the frequency of returns with sole proprietor loss to all returns in the group (.70 for 1952 and .78 for 1959) and the ratio of the frequency of returns with partnership loss to all returns (.09 for 1952 and .10 for 1959), respectively. The share for sole proprietors and/or partners with loss was estimated by summing the frequencies of returns with sole proprietorship and partnership loss, correcting for double counting, and dividing by all returns in the group (.76 for 1952 and .84 for 1959). |
| 5. | Positive income components were wages and salaries, dividends, interest, annuities and pensions, rents and royalties net profit, net capital gains before deduction for net long-term gain, income from estates and trusts, and miscellaneous income. The apportionment was made by the same ratios as described for "other negative components in line 3." Miscellaneous income, which includes the net operating loss carryforward after 1954 and was negative for 1959, was therefore estimated for 1957-59 on the basis of prior year averages. |
| 6 and 7. | To estimate partnership net profit reported on returns with sole proprietor net loss, the former was multiplied by the ratio of the frequency of returns with sole proprietor net loss to all returns, excluding those with partnership net loss. An analogous procedure was used to estimate sole proprietor net profit on returns with partnership net loss. The ratios for 1952 and 1959, respectively, were .77 and .87 for line 7 and .30 and .47 for line 8. |

^aFigures may not add to totals because of rounding.

TABLE 1-2

DISTRIBUTION OF NET OPERATING LOSS CARRYFORWARD DEDUCTION, BY INCOME GROUPS, SELECTED YEARS, 1951-61
(thousand dollars)

AGI Classes (thousand dollars)	1951	1952	1953	1954	1960	1961	Percentage Distribution Based on Five- Year Average, 1951-54 and 1960
Negative AGI	68,668	90,865	161,411	86,136	123,399	68,103	70.48
Nontaxable returns	4,811	18,135	10,889	28,533	19,774	16,897	10.91
Taxable returns							
.6 - 2	6,782	5,913	9,130	2,431			
2 - 3	3,207	7,247	2,253	2,304			
3 - 4	2,748	926	869	5,274		1,427	8.13
4 - 5	2,105	886	1,609	2,424	8,012		
5 - 10	9,863	2,990	8,409	10,653			
10 - 15	2,153	2,711	3,093	3,351	2,134	1,521	4.63
15 - 20	1,224	1,505	902	1,477	200	1,456	1.79
20 - 30 ^a	1,888	1,126	1,383	445	1,953	870	.70
30 ^a - 50	1,114	1,048	1,176	716	4,720	373	.59
50 - 100	581	1,108	786	1,044	4,153	768	1.48
100 - 200	27	115	224	120	738	36	1.02
200 - 500	7	14	145	5	398	85	.16
500 - 1,000			23	1	153	86	.08
1,000 and over				51		90	.02
Total	105,179	134,589	202,302	144,965	165,634	91,897	.01
							100.00

Source: Statistics of Income, 1951-1954.

^aFor 1960 and 1961, class limits were \$25,000 instead of \$30,000.



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